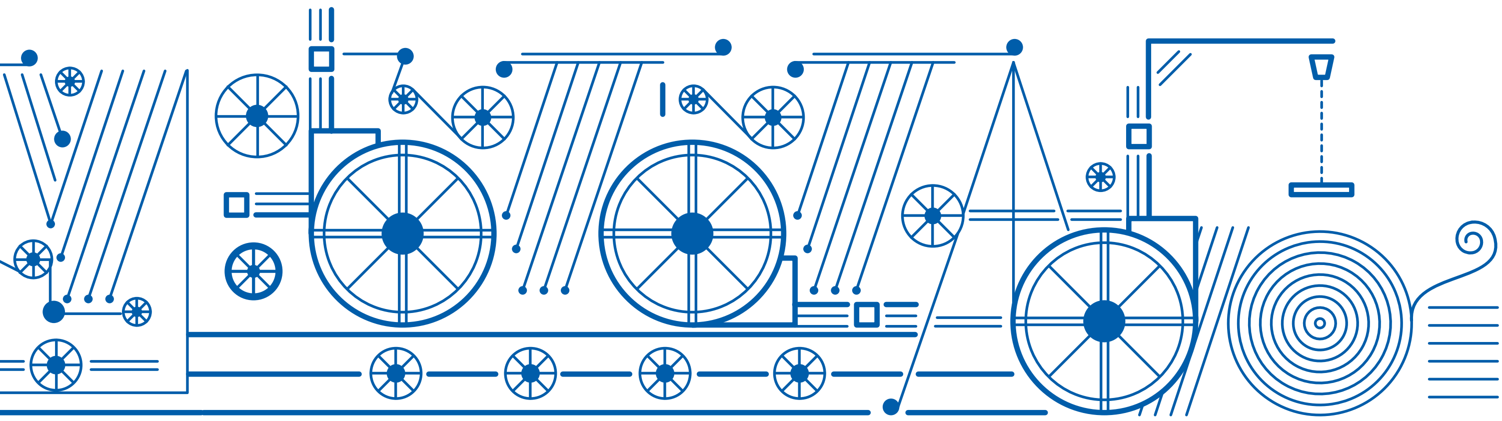
Kartonsan

Annual Report 2012



Contents

Agenda

ANNUAL GENERAL MEETING OF KARTONSAN KARTON SANAYİ VE TİCARET A.Ş.
29.03.2013 AGENDA

1. Opening the meeting. Electing the presiding committee. Authorizing the presiding committee to sign the minutes of the meeting.

2. Reading, deliberating, and approving the reports prepared by the Board of Directors, the statutory auditors, and the independent auditors concerning the Company's 2012 activities and accounts.

3. Providing information on charitable donations provided during the year. Determining an upper limit for donations to be made in 2013,

4. Reading, deliberating, and approving the 2012 balance sheet and income statement.

5. Discharging the Company's board members and statutory auditors of their fiduciary responsibilities for the Company's activities in 2012.

6. Amending paragraph (e) of Article 3, and Articles 9, 10, 13, 16, 18, 19, 20, 22, 25 and 27 of the Company's articles of association to ensure full compliance with the Capital Markets Law no. 6362, the Turkish Commercial Code no. 6102 and the additional regulations. Submitting the changes regarding the cancellation of Articles 15 and the addition of the paragraph 17/a in the articles of association, which were approved by the Capital Markets Board and the Ministry of Customs and Trade for the approval of the General Assembly.

7. Consideration of the 2012 profit distribution proposal prepared by the Board of Directors. Deliberating any suggested changes in the proposal. Approving, amending, or rejecting the proposal. Determining the dates of dividend payments.

8. Election and approval of two members to seats on the Board of Directors as independent directors as required by the Capital Markets Board's corporate governance principles.

9. Presenting the independent audit company selected by the Board of Directors for the audit of the Company's financial statements and reports in 2012 as per the Capital Markets Law no. 6362 and the independent auditor selected as per the Turkish Trade Code no. 6102 for the approval of the General Assembly.

10. Informing the general assembly about the principles governing the emolument of Company directors and senior managers.

11. Accepting, amending and accepting or rejecting the Board of Directors' "General Assembly Internal Directive" proposal, which includes the working principles and methods of the General Assembly.

12. Determining the remittance to be paid to board members.

13. Informing the general assembly of a summarized valuation report, which the Board of Directors commissioned an appraiser to prepare, concerning transactions to be undertaken by concerned parties in accordance with the provisions of the Capital Markets Board's Communiqué, Serial: IV and No: 41.

14. Informing the general assembly, pursuant to articles 395 and 396 of the Turkish Commercial Code and to relevant capital markets laws and regulations, that Company shareholders, directors, and senior managers who are in control of the Company's management as well as their spouses and their first- or second-degree relations, whether by blood or marriage, may engage in transactions that may involve conflicts of interest and/or their competing with the Company or with its subsidiaries or affiliates; obtaining the general assembly's approval for these individuals' involvement in such dealings.

15. Requests and comments.

Corporate brief

Kartonsan is the leading manufacturer of coated cardboard in Turkey. Founded in a spirit of entrepreneurism and courage 42 years ago, the Company is now Europe's fifth largest cardboard producer.

Turkey's leading and Europe's fifth biggest manufacturer of coated cardboard

Founded 42 years ago, Kartonsan is the leading player in the coated cardboard market in Turkey in terms of total production capacity. Having been founded in an entrepreneurial and courageous spirit under tough market conditions, at a time when paper production was a state-controlled business, the Company is now Europe's fifth largest manufacturer of coated cardboard.

Touching the everyday lives of millions of consumers with its environmentally friendly products, Kartonsan distinguishes itself both nationally and internationally by virtue of its unrivaled quality standards, superior customer satisfaction and its strengths in manufacturing, trading, and logistics.

According to 2012 figures, Kartonsan commanded a 36% share of the Turkish coated cardboard market and exports accounted for 22% of Kartonsan's total sales in the same period.

A pioneering and exemplary corporate citizen, balancing the economic interests of its stakeholders with social responsibilities

Kartonsan views economic, environmental and social sustainability as the right formula for a long term, healthy and profitable performance and this premise therefore represents the basis of its corporate strategy and targets.

Kartonsan places as much emphasis on environmental protection and respect for nature in its production cycle as it does on economic performance. Kartonsan recycles up to 99% of its paper in its production process, exceeding the sector average in Europe, and also employs the latest modern techniques to purify and re-use its waste water. In addition, Kartonsan generates its own energy, utilizes the turbine exhaust gases effectively to produce steam and carries out all of its operations under the concept of the "Integrated Management System".

Kartonsan pays great attention to the sustainability of the social structure. Accordingly, Kartonsan invests in the future of the community of which it is a part, and develops projects aimed at improving the personal competence of its employees.

Kartonsan undertakes a variety of social responsibility projects with a particular emphasis on education, and strongly contributes to Turkey's economic development through its export activities, corporate tax payments and support for employment.

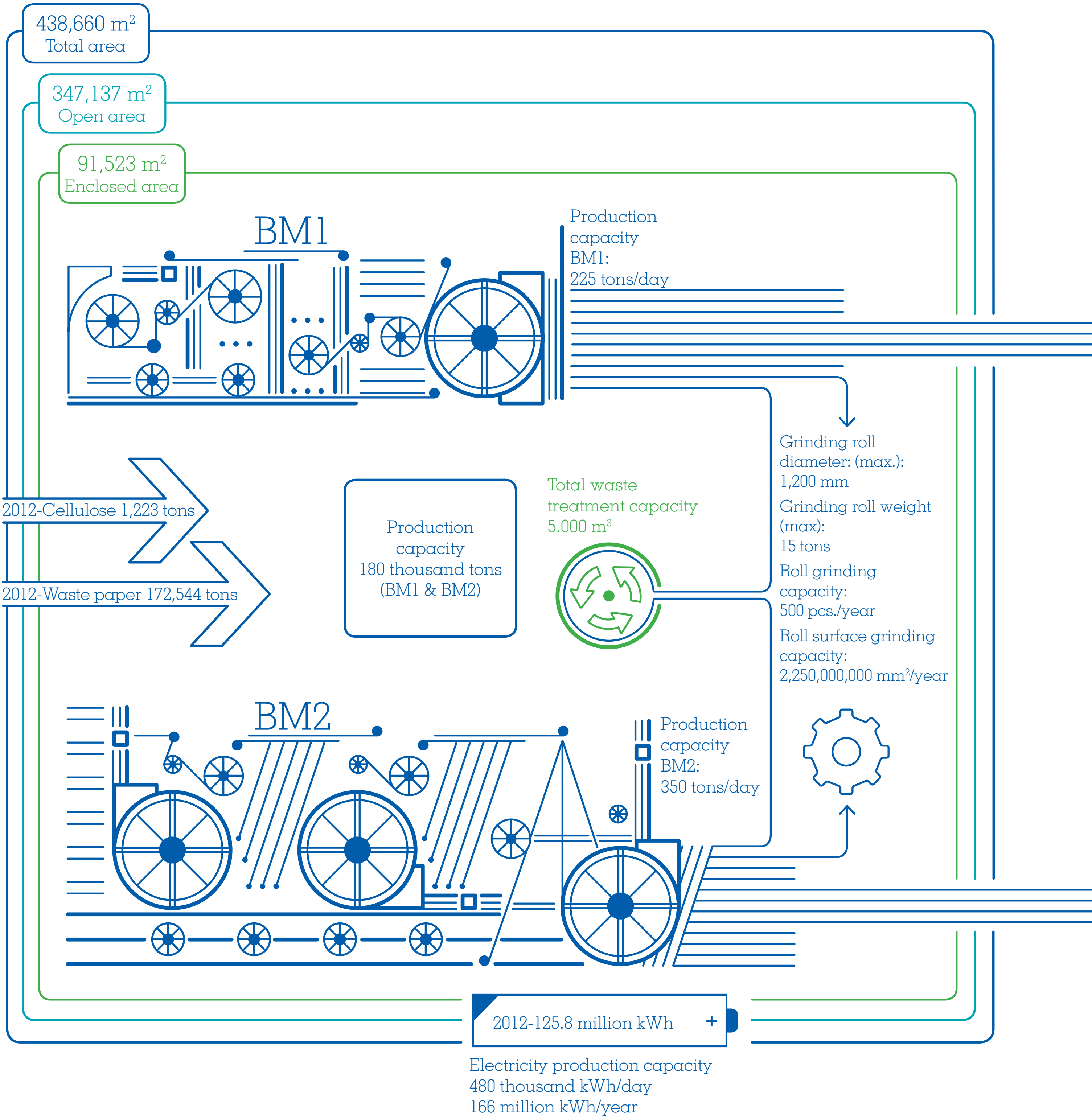
To the future through its competitive edge

Production power supported by expertise, experience, technology, robust corporate competencies and competent human resources are the most important pillars of Kartonsan's long- term growth map, shaping the Company's competitive edge.

Kartonsan shares are traded on the Istanbul Stock Exchange National Market under the "KARTN" ticker. Pak Group is the Company's major shareholder holding a 74.35% stake. Kartonsan's assets had reached TL 248.5 million (US$ 120 million) at the end of 2012, according to the independently audited 2012 consolidated financial statements. Summarized information regarding Kartonsan shares is presented on page 112 of this report.

Kartonsan's strength in production

Kartonsan connects to the everyday lives of millions of consumers both in Turkey and abroad through its products. The Company is distinguished by virtue of its unrivaled quality standards, superior customer satisfaction and manufacturing-trading-logistical strengths.



unrivaled quality standards

superior customer satisfaction

manufacturing-trading-logistical strengths

NORMPRINT

Available gr/m² weights

200, 225, 280, 300, 350, 400, 450 gr/m²

EXPRINT

Available gr/m² weights

225, 250, 280, 300, 350, 400, 450 gr/m²

LUXTRIPLEX

Available gr/m² weights

225, 250, 280, 300, 350, 400, 450 gr/m²

ULTRATRIPLEX

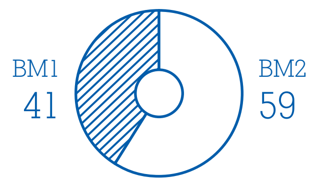
Available gr/m² weights

225, 250, 300, 350, 400, 450 gr/m²

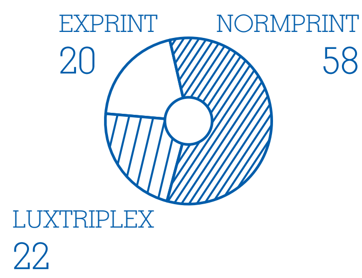
Total Production
(thousand tons)

2012	175
2011	177

Breakdown of Production
(%)



Breakdown of Production
(%)



Kartonsan products

In 2012, Kartonsan enriched its production portfolio through new grammage alternatives and reinforced the value it offers its customers.

Kartonsan's main products are manufactured from recycled paper and are known as "duplex (GD)" and "triplex (GT)" coated cardboards in the market. Kartonsan products are widely used in a variety of sectors.

Kartonsan products are certified;

- By the Ministry of Agriculture, Food and Livestock in terms of suitability for food packaging,
- By a number of reports issued by various international analytical laboratories for compliance with suggestions put forward by the BfR (the German Federal Institute for Risk Assessment), particularly in regard to their use in packaging which comes in direct with dry food.

In 2012, Kartonsan continued to improve its production portfolio through innovations which bring advantages for customers. Accordingly, 280 gram alternatives for the Normprint and Luxtriplex products were introduced to the market; meanwhile, feasibility studies were carried out for the introduction of 320 gram Normprint products in 2013, in line with market expectations.

Kartonsan's product portfolio and characteristics

Kartonsan's line of products and their features are summarized in brief on the right hand side. For further details and updates on prices for Kartonsan products, please visit our website at www.kartonsan.com.tr.

NORMPRINT

Normprint is a multi-coated cardboard with a blade top coat that provides brilliant printability with substantial ink economy and a high degree of varnishability. The backside is gray. Normprint can successfully be used for a wide range of different packaging applications.

Basis weights

200, 225, 280, 300, 350, 400, 450 gr/m^2

EXPRINT

Exprint is a multi-coated cardboard with a blade top coat that provides brilliant printability with substantial ink economy and high varnishability. It also offers excellent creasability due to its structure. The backside is gray. Exprint is ideal for use in all types of packaging and also for detailed graphic printing.

Basis weights

225, 250, 280, 300, 350, 400, 450 gr/m^2

LUXTRIPLEX

Luxtriplex is a multi-coated cardboard with a blade top coat that provides brilliant printability with substantial ink economy and high varnishability, Luxtriplex also offers excellent creasability due to its structure. The backside is white, which makes Luxtriplex ideal for all types of packaging. It is also preferred for greeting cards and advertising materials on which detailed printing is required.

Basis weights

225, 250, 280, 300, 350, 400, 450 gr/m^2

ULTRATRIPLEX

Manufactured from a blend of carefully selected recovered paper, Ultratriplex is a multi-coated cardboard that offers enhanced brightness on both sides. With a superior blade coating on the top surface, Ultratriplex allows for excellent printability, superior ink and varnish economy, and high creasability in addition to best-quality brightness and clarity values. A whiter back side and a single coating on the back side also make this product eminently suitable for printing.

Made from a blend of carefully selected recovered paper and high-quality virgin fibers and owing also to its high brightness values, Ultratriplex is far and away the best choice for luxury-item packaging and for the packaging of foods, pharmaceuticals, and cosmetics. It is also ideal for applications that require a high level of graphic detail such as advertising and promotional materials, book and notebook covers, postcards and greeting cards, and calendars.

Basis weights

225, 250, 300, 350, 400, 450 gr/m^2

Kartonsan and sustainability

As a corporate citizen aware of its responsibilities to the economy, the environment and society as a whole, Kartonsan's main principle is to produce coated cardboards with a maximum utilization of recycled paper, and to respond to market demand through the most appropriate products.

Sustainability will determine the long term competitive strength.

For Kartonsan, "sustainable development" means simultaneously dealing with economic growth and ecological balances, making effective use of natural resources in such a way as both to satisfy today's needs and to avoid endangering the ability of future generations to satisfy theirs, and taking a long-term view towards environmental conservation. As a concept, sustainable development plays a key role in the determination of Kartonsan's strategy and corporate objectives.

As a corporate citizen aware of its responsibilities to the economy, environment and society, Kartonsan's main principle is to produce coated cardboard with a maximum utilization of recycled paper and to respond to market demand through the most accurate products.

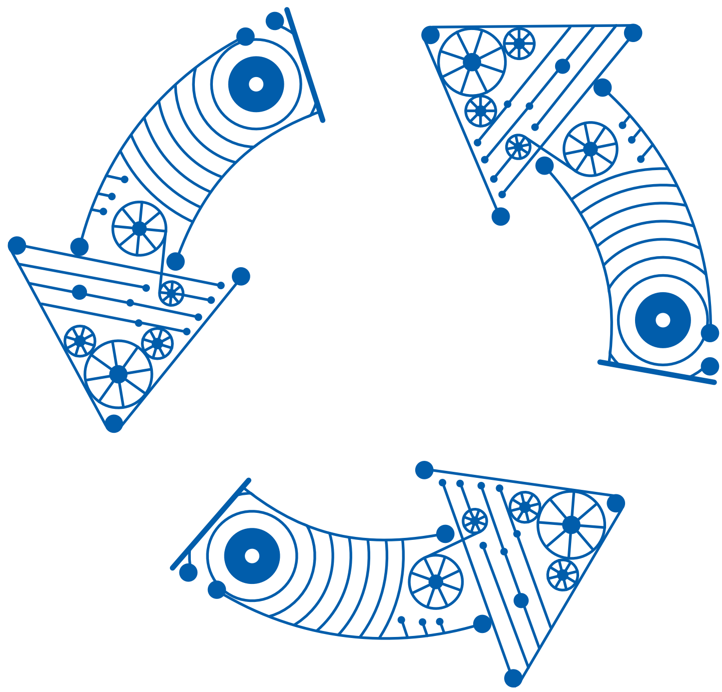
Kartonsan works in cooperation with its customers, employees, business partners, regulatory bodies and other shareholders in its production and trading cycle.

Kartonsan conducts its daily activities and investments from an integrated perspective in a constant effort to reduce the environmental impact of its production and operations.

Kartonsan is focused on the effective and efficient management of our limited natural sources. In accordance with its business line, Kartonsan is well aware of the importance of protecting and improving the planet's forests. In this context, the FSC-CoC certification studies were successfully completed in 2012, introducing a new step in Kartonsan's environmental responsibility.

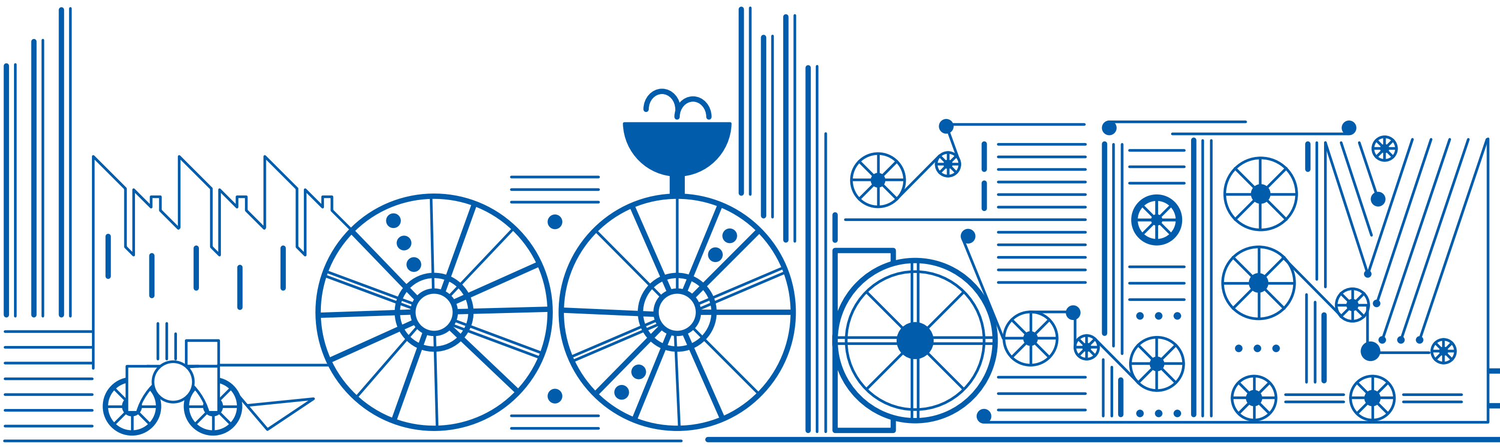
Kartonsan undertakes sustainable procurement and cycle applications which ensure the responsible management of forests and other natural resources.

Kartonsan uses recovered paper in its coated cardboard production. In this vein, Kartonsan also operates as a recycling facility as well. One of Kartonsan's unending goals is to reduce the consumption of natural resources and achieve maximum possible rates of recycling through systematic efforts and new projects.



Kartonsan from past to present

Turkey was introduced to domestically produced coated cardboard when Kartonsan commenced its operations back in 1970. Today, Kartonsan is the fifth largest producer of coated cardboard in Europe.



1970

Kartonsan begins manufacturing coated cardboard for making boxes.

1980

Continuing to expand its capacity year after year, Kartonsan launches its second (BM2) production line.

1985

Kartonsan's waste treatment plant becomes operational.

1986

The BM2 line becomes operational and Kartonsan's production capacity increases by 160%.

Kartonsan's shares begin trading on the İstanbul Stock Exchange's national market.

1993

Computer-controlled production lines are installed.

The BM2 line's production capacity is increased to 300 tons/day through the addition of new investment and plant optimization.

1995

Kartonsan celebrates its 25th year with innovations and recognitions of its success.

Three turbines capable of being powered by natural gas and fuel oil begin generating the Company's own electricity.

Kartonsan's environmental awareness is acknowledged by the "Green Smokestack" award from the Kocaeli Chamber of Industry and the "Environmental Incentives" award from the İstanbul Chamber of Industry.

1996

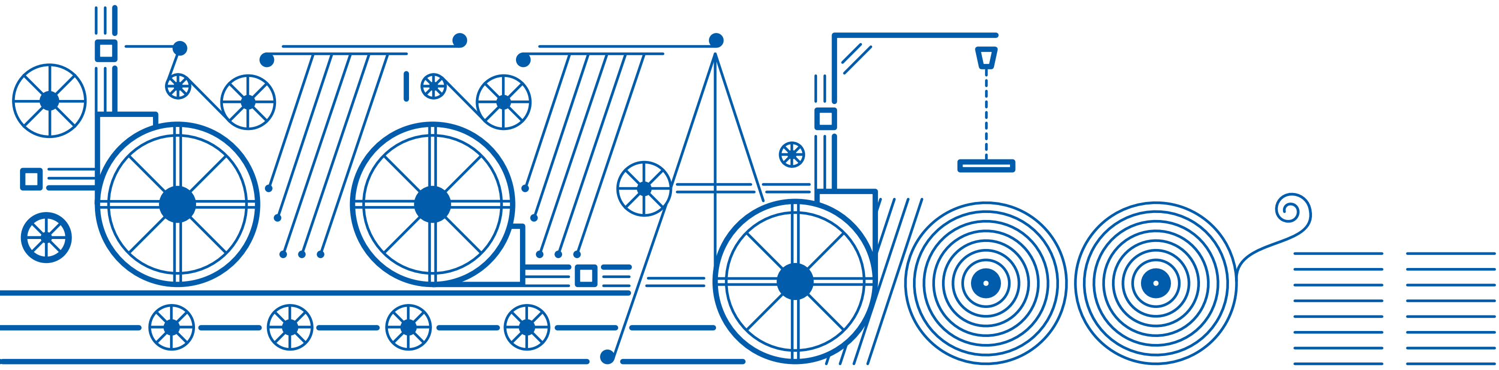
With the completion of an expansion investment at the power plant that raises its installed capacity to 19.2 MW, the Company begins generating electricity and steam.

1997

Work begins on projects to add a turbogenerator and a waste heat boiler at the Kartonsan power plant.

2002

Work is finished on a project to expand Kartonsan's treatment plant.



2003

Kartonsan begins selling the surplus electrical power that it generates to the national grid.

Kartonsan's integrated management system (ISO 9001 Quality Management System + ISO 14001 Environmental Management System + OHSAS 18001 Occupational Health & Safety Management System) is audited and approved by Bureau Veritas.

2006

Kartonsan's pulp preparation operations are augmented with the addition of a bleaching plant. This represents an important step forward in the direction of environment-friendly manufacturing by significantly increasing the amount of recyclable waste paper that can be used in the Company's production.

2009

The BM2 line's production capacity is increased by 50%. Kartonsan's total annual production capacity reaches 180 thousand tons.

The product line is expanded with the addition of NP 200, whose advantage is that it requires 10% less cardboard to be used compared with others employed for the same applications.

2010

The number of countries to which the Company exports reaches 25.

Projects are also launched to obtain Paper by Nature and FSC-CoC certifications in recognition of Kartonsan's commitment to environmental awareness and to the support of sustainable resource use.

2011

Kartonsan posts the best production, sales, and turnover results in its 41-year history.

In the 41 years since then, Kartonsan has become the fifth biggest maker of coated cardboard in Europe.

2012

A Letter of Intent, worth 16 million Euros, was signed with the Austrian Andritz AG to finance an increase in the BM2 capacity by approximately 50%.

The transition to the SAP system project was completed following FSC certification studies.

Key financial figures at Kartonsan

Based on 2012 figures, Kartonsan commands a 36% share in Turkish coated cardboard market. During the same period, exports accounted for 22% of Kartonsan's total sales.

Financial Highlights

(TL thousand)	2011	2012
Total net sales	200,884	200,588
Total exports	48,952	61,877
Total assets	228,637	247,916
Net profit	35,909	26,264

Earnings per Share (Consolidated / USD 1 par Value per Share)	2011	2012
Ordinary shares	13.02557	9.53877
Preferred (Group A) shares	13.02557	9.53877

Key Ratios

Liquidity ratios	2011	2012
Current ratio	5.89	6.34
Acid test ratio	3.99	4.43
Cash ratio	2.71	3.26

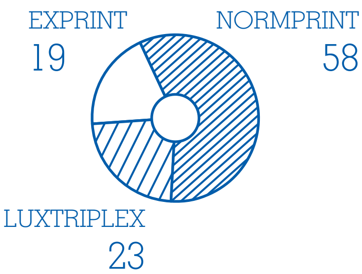
Profitability ratios	2011	2012
Pre-tax profit / net sales	22%	16%
Pre-tax profit / shareholders' equity	18%	12%

Financial structure ratios	2011	2012
Total liabilities / shareholders' equity	14%	14%
Short-term debt / shareholders' equity	11%	12%
Long-term debt / shareholders' equity	2%	2%

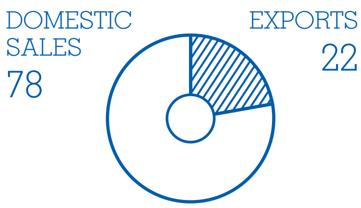
Total Assets (TL million)		Net Profit (TL million)		Earnings Per Share (TL)	
2012	247.9	2012	26.3	2012	9.5
2011	228.6	2011	35.9	2011	13.0

Total Net Sales (TL million)		Domestic Sales (TL million)		Total Exports (TL million)	
2012	200.6	2012	138.8	2012	61.8
2011	200.9	2011	151.9	2011	48.9

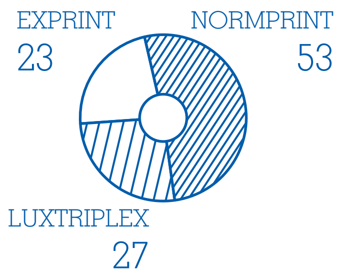
Sales By Product Type
(%)



Sales By Geography
(%)



Domestic Sales By Product Type
(%)



Chairman's message

Operating with the responsibility of being the sector's first private enterprise in Turkey and constantly improving its innovative character, its products and the services it offers its customers, Kartonsan concluded 2012 by consolidating its leadership in the market.

Dear partners, shareholders, customers and employees,

Leadership

Having served Turkey and its neighboring region since 1970 with continuously improving quality standards and increasing capacity, Kartonsan is the largest coated cardboard manufacturer in Turkey and fifth largest in Europe.

Operating with the responsibility inherent from being the sector's first private enterprise in Turkey and constantly improving its innovative character, its products and the services it offers its customers, Kartonsan concluded 2012 by consolidating its leadership in the market. According to 2012 figures, Kartonsan commanded a market share of 36% in the Turkish coated cardboard market, while exports accounted for around 22% of total sales.

For Kartonsan, leadership is a versatile concept in which the Company has matured from over 40 years of experience, and which has not been restricted by financial performance.

Over time, we have witnessed different periods in the Turkish economy. Since we have started our operations, we have experienced all the phases of transformation in Turkey, from a closed economy to a liberal system, and therefore have built up a wealth of different experiences. During this period, almost everything has undergone a huge transformation process, from the way of doing business to customer behavior and to customer preferences, completely redefining the terms of the competition.

The transformation has been rapid, not only in Turkey but also on a global scale. Apart from the global economic crisis, some larger scale trends have also deeply influenced our sector, particularly the recent strengthening market presence of Far Eastern producers, which has reshaped the competitive environment on a global scale.

Through a proactive approach, Kartonsan has been able to reflect all of these transformations to its strategy, to adopt these into its processes and increasingly reflect the potential of its business line to its performance. Simultaneously, Kartonsan has shared the value it has generated with its stakeholders, added value to society and accepted environmental protection as a basic duty.

From this point of view, it could be claimed that Kartonsan represents a true example of sustainability. Having been creating a value for more than 40 years, the Kartonsan brand incorporates many components and values within itself. The combination of all these components and values point a position which we define as 'leadership'; Kartonsan is a leading company by virtue of its share in the sector and the financial results it has achieved. Kartonsan is a leading company in the eyes of its domestic and international customers, thanks to its quality of its service and its reliability. Kartonsan is also a leading company for its employees. At the same time, Kartonsan is perceived as a leading company in the society that it operates in and of which it is a member.

Responsibility

Continuously improving and creating added value for the Turkish economy on the back of the strength it has gained from technology, expertise and experience in the market, Kartonsan has clearly defined its responsibilities to its shareholders and structured its processes and service cycles within this context. We have undergone a period where climate change has shifted from being a scientific debate to a reality observed in daily life. Climate studies carried out under the leadership of the United Nations point to the problems that our planet is facing, and the need to take urgent action to deal with them.

As Kartonsan, we are a strong member of a global industry whose raw materials are composed of recycled paper and cellulose. We share a heavy responsibility for the protection of the natural balance. From the waste products left from our production process to the raw materials we use in our coated cardboard production, to the electricity we consume; we are well aware of our direct impact on the environment from many perspectives, and we therefore strive tirelessly to reduce this impact as effectively as possible.

We have been a model manufacturer in heavy industry in Turkey thanks to the management systems we have developed over the years. On the other hand, we have been continuously carrying out rehabilitation and improvement studies with respect to the recycling of waste water generated in the production processes.

We have demonstrated a strong performance in the protection of our nation's forests, which represent the most significant area of our responsibility to the environment; our use of recycled paper has approached 100%, while at the same time we have been granted new product certifications which confirm the environmentally friendly characteristics of our products. Accordingly, in 2012, Kartonsan successfully completed the FSC-CoC certification studies, raising our environmental responsibility to a new level.

Kartonsan pays as much attention to the efficient and effective management of natural resources as it does to economic performance. At Kartonsan, we acknowledge that the ecological balance and economic growth should be considered simultaneously, and that leaving a sustainable world to future generations by pursuing the careful use of natural resources is the common responsibility of today's economic players. Kartonsan will unstintingly continue to fulfill its duties and never lose sight of its responsibilities in this area.

Dear partners, shareholders, customers and employees,

Having touched on our leadership characteristics and responsibilities, I would like to briefly discuss the developments that affected our economy during 2012, their reflections to our industry and finally talk about the future road map for Kartonsan.

The economy

The world economy continued to falteringly struggle towards a recovery, but at a slow pace in what was the fifth year following the global crisis. While there was some attention on regional disintegrations as well as interblock disintegrations, it could be said that developed economies remain in recession whereas emerging economies displayed an unstable growth performance from one period to the next, also languishing under the effects of this recession.

Although the European Union stepped back from the brink to prevent a break-up of its monetary union in the nick of time, thanks to the determined stance and overt support to markets by the European Central Bank, it will be some considerable time before the Eurozone again finds a balance between growth and sustainable development. The most crucial test that European economies will face will be the decisive initiation and improvement of common supervision and auditing functions which were largely neglected during the transition to monetary union.

Having concluded 2012 with steps both backwards and forwards, the US avoided disaster from the fiscal cliff at the very last minute and has started to offer some signs of hope as we enter 2013. Under current circumstances, the US economy is in a relatively advantageous position when compared to the European Union. Inflation, unemployment and public expenditures figures will determine the path these two big blocks will follow in 2013.

Led by China, almost all the emerging economies concluded 2012 with a performance in parallel with the global slowdown and successfully managed the soft landing in their economies. The future performance of emerging economies, including Turkey, will be shaped by uncertainties regarding the global economy and fluctuations in capital flows.

We foresee that Turkey, which is expected to announce a growth rate of around 3% for 2012, will maintain its positive decoupling from other emerging economies in 2013 and sustain its growth performance.

The industry

In 2012, the major problem facing the domestic coated cardboard industry was the decline in prices of imported products, led by exchange rate movements. As a result, local producers faced greater difficulty competing with imported products. The declining trend in coated cardboard demand in Europe also took its toll on local producers, while pushing imports higher as the Euro slipped to around 2.20 against the TL, increasing the attractiveness of imported cardboard.

In addition to the challenges arising from the exchange rate impact, the slowdown in Turkey's economic growth also caused deterioration in the supply-demand balance. This led to a decline in coated cardboard prices, particularly during the summer period.

Kartonsan will continue to grow in the Eurasian region, combining the logistical advantages of Turkey's geographical location with a high quality product mix and a service approach that prioritizes customer satisfaction.

The major development taking place outside Turkey has been the increasing competitive pressure from Far East products in global markets. The future of the global coated cardboard industry and the new terms of competition will be influenced largely by the large scale investment plans announced by China. Ongoing new capacity investments in China, which are expected to be concluded in the 2012-2014 period, will increase China's total production capacity by 8.2 million tons per annum.

The future

Our unique characteristics and approaches set Kartonsan apart. Kartonsan benefits from its long-standing brand name, superior production strength, healthy financial structure, competent human resources, high quality standards and commitment to business ethics.

Aware of its position as a trendsetter in the industry, Kartonsan decided to embark on a new investment program in 2012 to further enhance its production capacity.

Having raised its ranking to 5th place in the European region during 2010, Kartonsan's corporate objective is now to climb to 3rd place by 2015 in the region in terms of production capacity. In this vein, we are considering new opportunities to support the Company's organic growth; first and foremost amongst these is the BM2 capacity investment, where studies are being carried out meticulously. We plan to increase our total capacity by approximately 30% through an investment project starting in 2013, which we expect to conclude within 2 years, working in cooperation with domestic and international suppliers.

Kartonsan will continue to grow in the Eurasian region, supported by the logistical advantages of Turkey's geographical location, its high quality product mix and a service approach which prioritizes customer satisfaction.

In a nutshell, our expectations for the future are broadly positive. Kartonsan will maintain its leading and strong market position in Turkey and neighboring regions, which offer high growth potential. Our competent human resources, reliable brand name and internationally accepted product quality bring us the strength essential for our sustainable growth in an industry where competition is expected to become fiercer.

Our objective is to increase our contribution in all areas for our shareholders' in the process in building a better future. As long as we have your support, Kartonsan will remain a leading company in the domestic market and be a more preferred and reliable manufacturer in the global coated cardboard market through its high quality products and its service understanding.

Kind regards,

S. Ercan Gülçur
Chairman of the Board of Directors

Board of Directors and Statutory Auditors

BOARD OF DIRECTORS

Name / Surname	Position
Sinan Ercan Gülçur	Chairman
Aslı Balkır	Deputy Chairman
Ünal Bozkurt	Deputy Chairman
Babür Gökçek	Board Member
Mehmet İmregün	Board Member
Hatice Canan Pak İmregün	Board Member
Süleyman Kaya	Board Member
Ali Ersin Güredin	Independent Board Member
Tamer Koçel	Independent Board Member
Haluk İber	Board Member & General Manager

STATUTORY AUDITORS

Name / Surname
Hakan Hasan Arı
Erdal Çalıkoğlu

General Manager's assessment

As the leading producer of coated cardboard in Turkey and the 5th largest in Europe, Kartonsan is accepted as a leading producer thanks to its high quality standards and logistical advantages, as well as its competitive strength in production.

Business partners and dear colleagues,

Despite the contraction in the European market for coated cardboard during 2012 and the deeply felt impacts of the contraction in the industry, Kartonsan nevertheless notched up another profitable operational year, thanks to its

- ability to foresee changes in the markets
- strong production structure
- effective logistical strength
- operational efficiency

With a 36% market share, Kartonsan maintained its leading position in the Turkish coated cardboard industry through its gross production of 174,573 tons in 2012. Total sales volume reached 157,800 tons in the year, leading to TL 201 million in turnover.

The Company achieved a gross margin of 20%, while generating a consolidated net profit of TL 27.1 million. We accordingly recorded a 12% return on equity and 11% return on assets, yielding a profit of TL 9.53 per share.

Ranked 5th in the European league

As Turkey's leading producer of coated cardboard and the 5th largest in Europe, Kartonsan is accepted as a leading producer thanks to its high quality standards and its logistical clout, as well as its competitive strength in production.

We have longstanding experience in the market with a focus on the management of continuous transformation and progress. We continue to lead the Turkish coated cardboard industry, faithfully following a mission we undertook 42 years ago. Kartonsan has been consolidating its position in international markets thanks to its corporate culture - which has been adopted by all of its units, its values and its strong vision.

We accept the generation of value for our shareholders as our main commitment. To this end, we adopt the most update production models and continue investing for the sake of increasing our operational efficiency. We maintain our transparent, clear and attentive approach to our shareholders diligently and in a manner which strengthens and encourages us in our journey towards our objectives.

These factors that I have mentioned carry Kartonsan's strong position beyond Turkey's borders, and position us as an active participant in the global coated cardboard industry.

An operating performance successfully maintained in a changing environment

2012 was a year of volatility for both the Turkish economy and the global economy. The volatility in exchange rates and raw material prices significantly curtailed our field of foresight. Nevertheless, Kartonsan successfully managed this unstable conjuncture, which was particularly marked in the second half of the year, and took account of this backdrop - as well as customer satisfaction - when setting its pricing policy.

A well-planned sales organization was another factor contributing to the sound operating performance, with an optimal balance between the domestic market and export market. In brief, Kartonsan maintained its characteristics of being an efficient and profitable company during 2012 thanks to well-timed proactive strategies.

Exports of over 36,000 tons in 2012

Kartonsan consistently sustained its export performance during 2012. We have connected to the everyday lives of 100 million consumers by selling our products to more than 20 countries in a wide geographical area.

On the export front, adding new countries including Germany, Belgium and the Netherlands to our longstanding trading partners in European markets was an objective shaping our marketing activities throughout the year.

In 2012, our traditional export markets were complimented by new countries such as the UK, Egypt and Uzbekistan, thanks to our logistical advantages. While our total exports accounted for 22% of our total sales volumes, we recorded 17.4% growth in our export volumes when compared to the 2011 figures.

Our exports strategy, which is developed in parallel with our domestic marketing model, is focused on establishing longstanding relationships with large scale printing houses that manufacture coated cardboard packaging and becoming their constant suppliers. I would like to add that our marketing activities carried out in this framework were also successful in 2012, attracting new customers.

Its presence in international markets illustrates that Kartonsan now stands as one of the main suppliers for the Eurasia region. Our target for 2013 and beyond is to maintain our proactive approach, taking into account global and national price movements, freight costs and customer demand, and to balance our sales mix at the most accurate and efficient level.

We are preparing for the realities of the future market by ramping up our production power with investment projects.

Well aware of the unquestionable importance of innovation, transformation, anticipation and planning in Kartonsan's corporate culture, Kartonsan has improved its technology and production competence with each year, converting its power of enhancement into a competitive advantage as Kartonsan continues to accomplish investment and growth programs with full compliance of sector conditions.

A total of TL 6.8 million of investments in 2012

The major targets in Kartonsan's investment program are to achieve savings in input consumption, balancing costs at the minimum possible level, increasing efficiency and improving the quality of the production. Another major target of our investment projects is the global vision of our Company and its future positioning in the region.

We expect the negative impacts of the global financial crisis, which have been ongoing for 5 years, to gradually diminish in 2014 and beyond, bringing the world economy on a more stable growth path. To this end, the coated cardboard industry will continue to progress. Economic growth will pave the way for higher coated cardboard demand, particularly in emerging markets. Hence, Kartonsan also carefully undertakes analysis of demographics and consumer behavior, while investing with precise risk perception.

Our recent analyses in this context were behind our decision to raise our BM2 capacity, and necessary steps were taken during 2012. The signing of a letter of intent with Andritz AG for 16 million Euros in financing of an investment project concerning international procurements marked a major step in facilitating the capacity increasing investment, work on which will start in 2013.

The BM2 capacity increase investment represents an important step towards Kartonsan's target of becoming the 3rd largest player in the region by 2015, with the investment expected to be completed by 2014.

General Manager's assessment

The consistent progress we have achieved under the direction of our corporate background and market know-how, our competent and hardworking employees, who have adopted our corporate culture, indicate a sustainable future for us.

Continuous customer satisfaction - a key component in our formula for success

For Kartonsan, the driving forces behind sustainable growth, progress and success are its market experience in production and trade, its know-how and, crucially, its customer satisfaction.

Our competence in perceiving, evaluating and accurately meeting market demand plays a key role in our ability to respond effectively to customer expectations, while the intensive use of technology in our decision taking and management processes has contributed to customer loyalty. Our ability to manage market and production risks with a high degree of accuracy and our commitment to ethical values are strong advantages for us in our customer relations and our pricing policy, which prioritizes the value offered to customer without sacrificing the quality that has always been appreciated.

The implementation regarding customer representatives, a process which continued in our domestic operations in 2012, has presented us with an opportunity to follow the markets closely as we have continued to improve delivery, product quality and payment terms processes. Initiated in 2012, the SAP project will contribute to improving customer satisfaction, as well as promoting Kartonsan's efficiency and effectiveness in general.

I express my gratitude to my colleagues.

I assumed the position of General Manager of Kartonsan in 2012. I would hereby like to thank all of my colleagues for their cooperation and support during my time at Kartonsan where I have worked for 22 years at various levels.

I once again would like to extend my appreciation to all of my colleagues for their devoted efforts and performances under these difficult economic conditions, which have resulted from the negative impacts of the contraction in European market in 2012.

Unstinting support from our shareholders will remain a factor in our long term success

As in the past, Kartonsan is also determined to maximize its total output going forward, through fair and honest cooperation with its customers and thus contribute to the economic development of Turkey. In addition to the effective management of its production, trading and environmental risks, Kartonsan will continue to seek to create increasing value for society.

In such a highly competitive industry, our consistent progress - directed by our corporate background and market know-how, our competent and hardworking human resources that lies at the heart of our corporate culture - points to a successful future for us. Kartonsan will maintain its presence as a service provider moving forward to the future and to global markets.

I would like to extend my sincerest gratitude and respect to all of those who have cooperated with us, supported us and chosen our products and services.

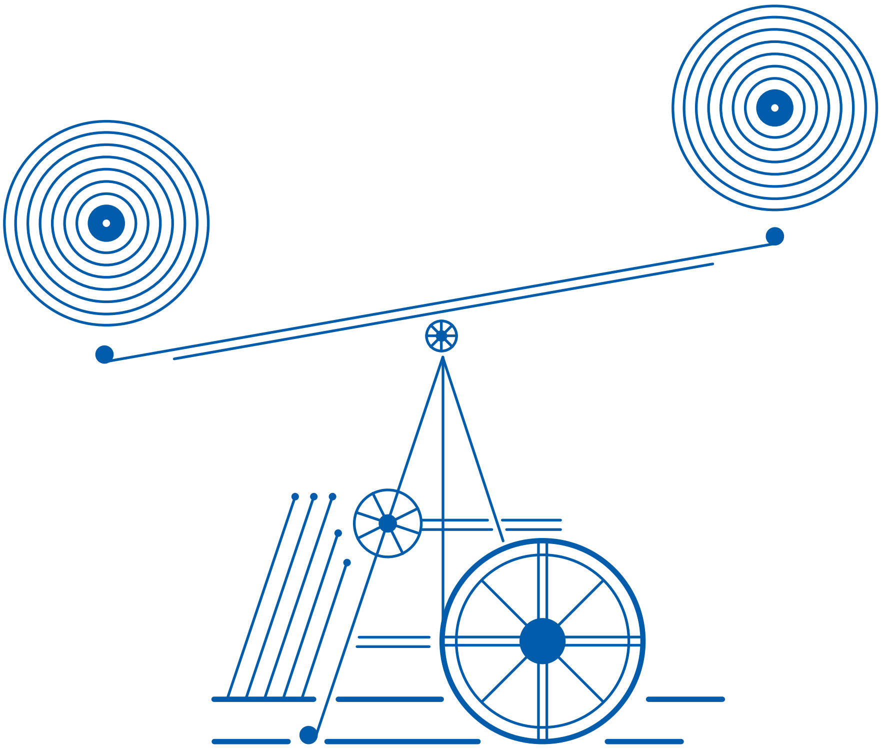
Kind Regards,

Haluk İber
Board Member and General Manager

Senior Management

SENIOR MANAGEMENT

Name / Surname	Position
Haluk İber	General Manager
Ümit Özkan	Production Manager
Raşit Kemal Özkırım	Marketing Manager
Yalçın Özel	Production Services Manager, Human Resources & Quality Systems Manager
Atiye Tuğtekin	Procurements Manager
İlker Bodur	Technical Services Manager
Bülent Koru	Financial Affairs Manager



Following a challenging period in 2012, two major developments will shape supply and demand conditions for the global coated cardboard market in 2013-2014; a recovery in demand, and massive capacity increases in China. Freight rates will also continue to play a significant role in setting the direction of the competitive environment.

The economy in Turkey and the world, and review of the industry

The uncertainty created by the global economic crisis remained during 2012.

THE WORLD ECONOMY IN 2012

The global economy faced more challenges in 2012, yet there were signs of improvement in global markets. The economic challenges remained a concern for developed countries throughout the year, with actions first affecting the markets by firming expectations, before the results were reflected to the overall economy with a certain lag.

A year of uncertainty

The uncertainty that followed the global economic crisis remained during 2012. The recovery in global economic activity remained short of expectations, while the crisis in the public finances of developed countries remained high on the agenda. In general, these problems creating obstacles to economic growth continued to be treated as global concerns.

After the US presidential elections, efforts continued in the US to resolve ongoing problems related to public finance, while the uncertainty hanging over the EU worsened and raised fears of a recession. Such concerns in developed countries had also negative effects on emerging countries. Despite some regional differences, related issues cast a shadow over the growth outlook.

The steps taken to resolve economic problems and fiscal measures provided some support to global markets, especially in the last couple of months of 2012. The disturbing surges in yields on EU bonds were partially brought under control, and the risk that fiscal problems would deepen was reduced. On the other hand, expansionary monetary policies implemented to stimulate economies in developed countries led to an excess amount of liquidity, while limiting stock market losses. As a result, risk appetite continued to increase, and capital inflows to those emerging countries with a strong fiscal structure and growth potential remained intact.

The US economy - starting the new year on the edge of a fiscal cliff

GDP growth in the US increased from 1.3% in 2Q12 to 2.0% in 3Q2012. While the increase in both consumer spending and residential construction was encouraging, lower exports and the weak performance of non-residential investments raised doubts about the recovery of the economy.

With unemployment rates in US having remained high for a considerable period of time, with the prospect of a permanent deterioration in the labor market, the FED declared its 3rd round of Quantitative easing. In contrast with earlier precautionary packages, the FED stated that it would continue to buy mortgage backed assets until unemployment was brought down to a satisfactory level.

In the 4th quarter of the year, the issue defined as the “fiscal cliff”, referring to the removal of tax advantages which had been in place at the same time as a round of spending cuts, led to a risky outlook and dealt a blow to global markets.

A solution to the problem was found at the beginning of 2013, and the concerns about fiscal cliff were put off to the middle of the year.

The US current account deficit remains an important issue which can affect the global economy in the short and medium term. Spending cuts and tax hikes are not only creating a risky environment for the US, but emerging as a source of concern for investors.

Europe brings systemic liquidity risk under control, despite weak economic growth.

The European Central Bank succeeded in bringing systemic liquidity risk under control, which emerged as a result of Eurozone fiscal crisis. Due to heavy burden of the measures taken, economic growth in Eurozone was estimated at 0% for 2012. The European economy is being hurt by the disparity of economic growth and fiscal debt, a phenomenon defined as “the great disintegration”.

The European Central Bank’s strong declaration to support the financing of Eurozone countries debts eased concerns over fiscal problems, where it offered an assurance that the bank will solve the problems of these countries if they submitted applications to the European Central Bank for assistance. In 2012, Spain was considered to require such assistances from the European Central Bank; however, the government in Madrid did not show any willingness to take the matter to the European Central Bank. While there has been an ongoing debate over whether Spain’s economy can sustain itself without any aid from the European Central Bank, austerity measures to cut public debt were exacting a heavy toll on the Spanish economy and banking system.

Some European countries have been facing an economic quagmire and have been struggling to overcome recession for considerable periods of time (five quarters in Spain, seven quarters in Portugal, nine quarters In Greece). As neighboring economies face the contagious effect of deflation, the German economy is now estimated to have contracted in the last quarter of 2012. As a result, all related facts depict a puzzling picture of the structure and strength of the Eurozone.

Just after the first quarter of 2011, economic activity started to slow and the Turkish economy, in line with expectations, entered a soft landing process.

China: Tentative signs of recovery in the 3rd quarter

As the biggest contributor to the economic recovery process after the global economic crisis, China's economy has undergone a slowdown in its rate of growth for the last year and a half, with the trend continuing in the 3rd quarter of 2012.

China's annual rate of economic growth was 7.4% in the 3rd quarter of 2012 (7.6% in the 2nd quarter), reaffirming its strength despite the unfavorable global outlook. Data for China's economy can be considered to be promising, despite the slight decline compared to the 2nd quarter. Growth in manufacturing production came in at 9% on an annual basis in September and infrastructure projects were called off and manufacturers encouraged to deplete stocks.

Growth in retail sales increased from 13.1% in August to 14.2% in September. Annual export growth expanded from just over zero at the start of the year to 10%.

Economic growth in China appears to be slowing down, despite a very bright outlook, and the pace of growth in the world's second largest economy is expected to continue decelerating in 2013. Excess investment in the past, decreasing efficiency in equity, unfavorable changes in the consumption pattern and a diminishing competitive advantage in China over other emerging economies are the main factors behind the slowdown.

Projections for 2013 suggest a slow and volatile growth trend for the world economy.

Looking forward, it is difficult to see any clear signs of a strong recovery on the horizon. The consensus of expectations suggests slow and volatile growth to come.

A combination of strong corporate financial results, a slow normalization in risk appetite in the banking sector and an increase in household spending will encourage an accumulation of capital and raise consumption of consumer durables. Moreover, expansionary fiscal and monetary policies implemented in emerging markets are likely to strengthen growth in manufacturing sectors.

However, projections of a slow recovery in global economic activity are based on two critical assumptions. The first is that European policy makers improve compatibility between countries and speed up actions required for the complete integration of the Eurozone (including the establishment of a unique inspection mechanism). As a result, while high cost of financing and losses on capital outflow from neighboring countries to central countries will remain, the reliability of the implied policies will gradually strengthen. The second assumption is related to the US. The agreement of US politicians on a comprehensive plan to re-establish fiscal sustainability and the increase of the debt ceiling will be crucial issues affecting global economic conditions in 2013 and beyond.

After Obama's political victory in the presidential elections, the main focus in the US turned to the bargaining over the fiscal cliff. Furthermore, 2013 will be a busy political year in Europe where elections in Germany will determine the future of the continent, while the actions of the new ruling group in China's Communist Party will offer clues of whether or not they are reformist.

THE TURKISH ECONOMY IN 2012

Economic activity continued to slow down in the first 9 months of 2012. Moreover, the slowing rate of tax revenue growth and increase in the primary spending led to a gradual weakening in the government budget performance.

Economic activity slowed down in the first half of 2012, but the growth adopted a healthier structure.

GDP increased by 3.4% in the first quarter of 2012, 3.0% in the second quarter and 1.6% in the third quarter. According to these results, the annual rate of economic growth slowed from 8.5% in 2011 to just 2.6% for the first three quarters of 2012.

Just after the first quarter of 2011, economic activity started to slow down and the Turkish economy, in line with expectations, entered a soft landing process. Domestic demand decreased gradually from the summer of 2011 during this successfully managed process, while export led growth become more prominent from last quarter of 2011. Accordingly, while the demand structure grew much more efficient, the growth composition altered into healthier and sustainable outlook.

Leading indicators show that there was a recovery in demand in the last quarter of 2012. A raft of figures, including the Leading Indicators Index, data from the Turkish Exporters Assembly (TIM) and September's expectations survey for the following three months, along with internal and external market purchasing orders all indicate a slight recovery. According to Medium Term Program declared in October, it was estimated that economic growth in 2012 would be 3.2% due to decreasing contribution of net goods and services export to growth and a gradual recovery in domestic demand.

Improvement in balance of trade and current account balance to continue

The increase in exports and decrease in imports in the 4th quarter of the year helped narrow the trade deficit from US$ 105.9 billion in 2011 to US$ 83.9 billion in 2012, lifting the export/import coverage ratio from 56% in 2011 to 64.5% in 2012. Despite decreasing demand in Europe, which accounts for a significant share of Turkey's exports, a strong performance in new markets such as Africa, along with Turkey's falling imports supported the improvement in the balance of trade.

The improvement in the balance of trade also led to an improvement in the current account balance. The current account deficit narrowed from US$ 77 billion in 2011 to US$ 48.9 billion in 2012. It was estimated that current account deficit declined from 10% of GDP in 2011 to 6.0 - 6.3% of GDP in 2012.

Inflation set to maintain its downward trend.

The rate of CPI inflation increased to 11.1% by April in 2012, before exhibiting a rapid decrease to a single digit levels. For the rest of the year, inflation held firm and then resumed its downward course from September, but still remained higher than the projections.

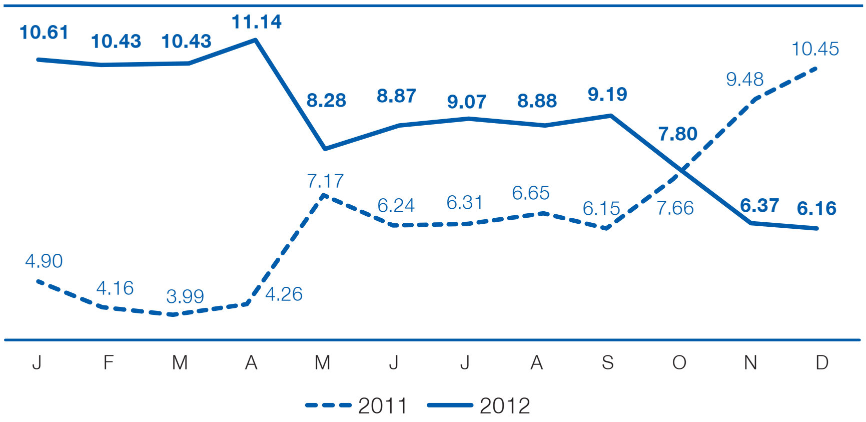
The main reasons behind the higher than expected inflation rate were the ongoing increases in oil and agricultural commodity prices and the government's adjustments in prices.

In the last quarter of 2012, the decreasing trend in inflation became more apparent, as food inflation was much lower than would be expected because of seasonality, and CPI inflation slipped to 6.16% by the end of the year. The annual rate of PPI inflation, meanwhile, was just 2.45% in 2012. In the coming period, the direction of energy prices will play the main role in setting the course in inflation.

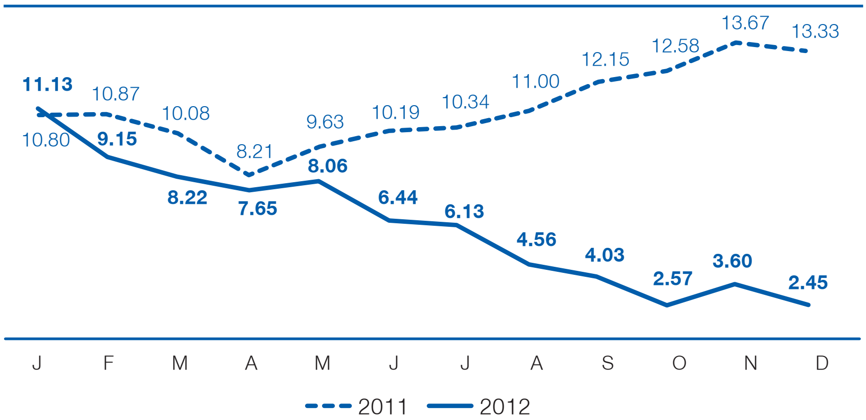
Foreign Trade / 2011- 2012
(USD million)

	Import	Export
2012	152,561	236,537
2011	134,907	240,842

CPI Annual Change
(%)



PPI Annual Change
(%)



CEPI member manufacturers' total sales of coated cardboard are expected to have declined by 3.2% in 2012, following their 3.7% decline in 2011.

A policy mix in pursuit of financial stability

The CBT diversified its aims from one of inflation targeting to one which includes financial stability as well, and has provided a brand new mixture of policies since 2010. The CBT applied the interest rate corridor, effective liquidity management and reserve requirements as active monetary policy tools during 2012.

By tracking excess volatility in both credit growth and the real exchange rate in order to sustain macroeconomic and financial stability, the problems that changing capital flows had wrought on the domestic market were brought down to a minimum. Thanks to these policies, which provided wider control over the macroeconomic outlook and took account of the contributions from other authorities, domestic demand was brought under control and the economy underwent its soft landing without facing any major problems.

The banking sector is a significant component of a sustainable economy. Sector indicators suggest that the system maintained its positive structure. Capital requirement ratios have remained high since July 2012, in accordance with Basel II obligations.

For the period ahead, financial stability could be affected by uncertainty in the global economy and volatility in capital flows.

The continued positive decoupling between Turkey and other emerging economies is set to pave the way for the widely anticipated fiscal policies and structural reforms set out in the Medium Term Program.

INDUSTRY OUTLOOK

Manufacturers of Coated Cardboard which are members of the Confederation of European Paper Industries (CEPI) recorded a 3.2% decline in sales volumes in 2012.

According to data published by the CEPI (www.cepi.org), member manufacturers continued to observe a contraction in their global sales volumes. It is estimated that CEPI member manufacturers suffered a 3.7% decline in their sales of coated cardboard in 2011 and a further 3.2% decline in 2012.

At the same time, total coated cardboard sales to Europe by CEPI manufacturers have also been declining. Total sales to Europe decreased by 3% in 2012 due to weak economic growth and the ongoing recession in the region. In short, European producers have observed a decline in their sales to both Europe and the world for two years in succession.

The situation in the recycled/secondary fiber-based cardboard (WLC) sector, as a subsector of coated cardboard, is no different. According to projections, the largest producers in Germany, Italy, the UK, France and Spain suffered shrinkages of between 3% and 10% in 2012, in parallel with the overall economic situation in the continent.

A brighter situation in emerging Europe

The circumstances for Eastern and emerging European countries differ from the more depressed picture seen in other parts of Europe. The region - which includes the largest coated cardboard consumers such as Poland and Turkey - recorded growth in 2011, although this was replaced by a contraction in 2012. In sum, growth in the region was flat, although some markets suffered a contraction. According to CEPI data, while growth in WLC sales in Turkey was flat in 2012 when compared to previous year, sales of folding boxboard (FBB) increased by approximately 2%.

European manufacturers hurt by market contraction.

European manufacturers are affected unfavorably by the contracting market, as stated above. The market challenges resulted in the liquidation of P-Cardboard (Cartiera Pirinoli) in Italy, the second largest coated cardboard player, while another Italian producer also turned one of its machines off.

As a result of such developments, total production capacity in Europe decreased by 250,000 tons. Although the decline occurred on the supply side, deterioration was observed in the supply-demand balance due to the steeper decline in demand.

European manufacturers tightened the competitive environment for the Eastern European market, which includes Turkey, by cutting their prices, especially in the second half of 2012.

The position of the world packaging (cardboard box) sector

According to a recent report published by the RISI (www.risiinfo.com), demand for coated cardboard reached 52 million tons in 2012. China represented a significant proportion of this demand (13 million tons). The same report estimated that average annual demand for coated cardboard in the 2012-2014 period would grow by 3.6%, with China expected to be the trigger of this growth in demand.

Market conditions in Turkey

The impact of the EUR/TL exchange rate - instability

The exchange rate is an important factor which directly affects profitability in exports and competitiveness in imports.

The EUR/TL exchange rate, which rose to 2.50 by the end of 2011, led to a decrease in coated cardboard imports in the first quarter of 2012. The relatively high demand for packaging in Europe during the same period resulted in a flat export trend of Eurozone manufacturers to Turkey. However, a subsequent rise in the Turkish Lira against foreign currencies occurring just after the first quarter, and lasting until the end of the summer, had a negative impact on the profitability of exports, and offered imported products with a competitive edge over local production.

The contraction in European coated cardboard demand also played a role in this process, and the movement in the EUR/TL exchange rate to 2.20 strengthened European manufacturers' competitiveness and bolstered their exports to Turkey.

In addition to the unfavorable exchange rate effect, the slowdown in Turkish economic growth led to a deterioration in the supply demand balance. As a result, coated cardboard prices decreased in the summer months. In the last quarter of the year, the slight recovery in demand and lower prices caused an increase in sales volumes, though at lower average prices when compared to the beginning of the year.

There was no change in Turkey's coated cardboard production capacity in 2012.

Competition with foreign manufacturers

WLC coated cardboard from Far Eastern producers did not gain a material share in Turkish or European markets during 2012. However, in the FBB segment, the situation was different; cardboard produced in China commanded a share of 50% of the market. As set out in sector reports, China is set to add 3 million tons of new FBB capacity and 2 million tons of WLC capacity during 2013, setting the stage for tougher competition from Far East producers in the Turkish market.

In the domestic market, most of the competition in the WLC segment was directed at European producers. In addition to the two largest European manufacturers, some other producers entered the Turkish market. The underlying reasons for these players entering the Turkish market were the recession in Europe and the relatively low price of imported products, due to the appreciation of the TL. Some producers facing pressure in their sales and in need for cash even tended to suppress their prices to levels even lower than the prices of the imported products.

Natural gas prices and other cost items affecting the sector

The hike in natural gas prices in April 2012 directly raised the cost of producing coated cardboard products. Another important factor which has a direct bearing on revenues is waste paper. Despite some fluctuations, prices of waste paper generally maintained a flat trend due to the contraction in demand during 2012.

An additional factor putting unwelcome pressure on manufacturing costs was the high cost of eliminating waste products. Such costs represent an important cost burden for coated cardboard manufacturers, in contrast to European examples. Note that industrial regions throughout Europe have facilities to utilize such wastes.

No growth for the cardboard packaging sector in 2012

Having recorded decent growth rates in 2010 and 2011, the cardboard packaging sector observed a flat trend in 2012. Turkey became the 3rd largest consumer of coated cardboard after Germany and Italy. According to the ECMA (www.ecma.org), production of cardboard boxes in Turkey increased by 6.9% in 2011; furthermore, sales of cardboard boxes had increased by 5.6%.

The growth of the cardboard packaging sector in Turkey is in line with the country's overall economic growth. The sector will continue to grow as the Turkish economy expands. The important determinant of the supply-demand balance will be the new capacity to come on-stream in China in the coming years.

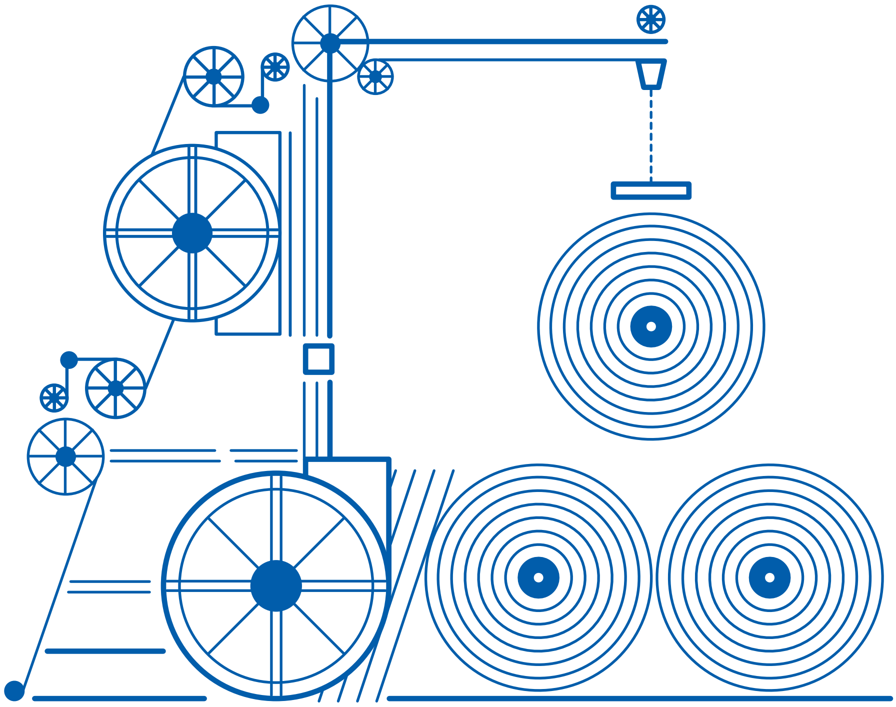
The future of competition: China

The future of global coated cardboard sector and the structure of the competition will be determined by China, which declared large scale investment plans.

Ongoing new production line investments in China, which are expected to be concluded in 2012-2014, will add 8.2 million tons of additional capacity in China. According to projections, China will export 1.7 million tons of cardboard boxes in the 2013-2014 period.

Latin America is another region expected to exhibit growth and raise its imports, as is the Middle East with its recovering demand conditions. Flat trends are expected in the EU and US due to weak domestic demand and economic recession.

In a nutshell, following a challenging period in 2012, the expected recovery in demand and forthcoming massive capacity increases in China are expected to determine the supply and demand conditions of the global coated cardboard market in the 2013-2014 period. Besides, freight rates will continue to play the most significant role in shaping the competitive environment.



Kartonsan enjoyed a profitable operating period with its ability to respond proactively to the changes in the market, its strong financial structure and operational efficiency. The Company once again illustrated its strong financial and operational performance, with its ability to create sustainable value, as Kartonsan presses ahead in its long term journey with determination.

Kartonsan in 2012

The main factors behind Kartonsan's success in its 2012 year end results were its well-structured sales policies, marketing strength, production technology and strong corporate structure.

The year 2012 was a successful operating year for Kartonsan. With its ability to proactively respond to changes in the market, its strong financial structure and its operational efficiency, the Company completed a profitable operating period. Kartonsan once again illustrated its strong financial and operational performance with its ability to create sustainable value, and the Company presses ahead in its long term strategy.

Kartonsan's strategy of pursuing regional growth can be broken down into the following headings:

- Becoming one of the principal suppliers of exports to markets in Turkey's hinterland;
- Continuing to deliver fast, high-quality service to customers;
- Increasing production process efficiency;
- Taking a "regional-supplier approach" to production capacity increases;
- Achieving the highest possible level of sustainable profitability for shareholders.

As a result of the steps taken to pursue its strategy, Kartonsan maintained its leadership in the sector during 2012, producing 36% of all the coated cardboard manufactured from recycled paper in Turkey.

The year 2012 was an efficient and successful year for Kartonsan, with the Company attaining its targets. Despite the challenges presented by faltering and volatile domestic, global and sector conditions, Kartonsan recorded favorable sales and export values, in line within its goals. However, as the strength of the local currency and volatility in waste paper prices, which marked most of 2012, put pressure on operating profitability, its net profit decreased by 27%.

Kartonsan had budgeted sales of 170,600 tons; the Company realized sales of 157,800 tons in 2012. The Company had planned gross output of 178,000 tons; the realization was 174,600 tons. Total turnover from coated cardboard sales during the year reached TL 200.6 million. As in 2011, Kartonsan adopted a flexible approach in the planning of its domestic and international sales opportunities in 2012 and structured a marketing strategy according to seasonal conditions.

While Kartonsan placed greater emphasis on the domestic market where competition from imports was relatively light in the first quarter of 2012, the Company exercised its preference to balance internal and external sales, due to the rise in the local currency and the fierce import-led competition that prevailed for the remainder of the year.

The Company comprehensively responded to all orders received from domestic customers in a flawless manner in terms of production and inventory management. Kartonsan shipped 78% of its sales to the domestic market. The main factors behind Kartonsan's successful performance in its 2012 year-end results were its well-structured sales policies, marketing strength, production technology and strong corporate structure.

Exports surpass 36,000 tons in 2012.

On an export-tonnage basis, Kartonsan sold more than 36,000 tons of goods during 2012, recording a 17.4% increase when compared to 2011.

Kartonsan exports to more than twenty countries in a broad region.

While Bulgaria, Romania, Ukraine, Russia and Spain are traditional export markets where Kartonsan enjoys a logistical advantage, new markets have been added to the Company's portfolio, with the UK, Egypt and Uzbekistan emerging as new export markets for Kartonsan in 2012.

Kartonsan is also eyeing the addition of more Western European markets like Germany, Belgium and the Netherlands to its portfolio of export destinations which have traditionally include Italy and France, with which the Company has long-lasting trade relations.

Having been a key Eurasian supplier, Kartonsan continued to focus on international marketing and promotional activities in a bid to boost export revenues. Exports accounted for about 22% of the Company's total sales in 2012, leading to US$ 23 million of export revenues.

Looking at the Company's export breakdown by product category, the Normprint product accounted for the largest share (64%) in 2012 followed by Exprint (32%) and Luxtriplex (4%) as the most sought-after products.

In export markets, Kartonsan adopts the same marketing approach as in the domestic market - to develop longstanding relationships with printing presses which produce cardboard packaging, and to be one of their continuous suppliers. In line with this objective, Kartonsan seeks to provide qualified and fast service and the Company effects improvements in line with client needs.

Kartonsan aimed to offer sales under the most favorable shipping conditions in 2012. Kartonsan, a strong participant in the international market, aims to follow global developments in 2013 and beyond proactively and with an eye to improving export activities.

Kartonsan will undertake an investment to renovate its production plant, improve quality and raise capacity in 2013. The BM2 project envisages a 50% increase in capacity.

Karton@

Karton@, an electronic sales channel, become more effective throughout 2012.

Purchase orders through the electronic trade platform, which allows clients to follow their account balance in addition to providing an electronic sales channel, reached around 5,000 tons in 2012.

A strategic step towards its 2015 target

Thanks both to a combination of regional developments and the additional production capacity brought on stream in 2010, Kartonsan now ranks as the 5th largest manufacturer of paper in Europe. The Company has now set its sights on becoming the third biggest producer in the region by 2015. In doing so, Kartonsan is currently considering new opportunities to drive its organic growth forward, one of them being a BM2 capacity-increase investment.

Kartonsan will undertake an investment which will provide renovation, quality improvement and capacity increase in its production plant. The project, which envisages a 50% increase in BM2 capacity, is composed of domestic and international procurements and will be completed within two years. In accordance with international procurements, a letter of intent to finance 16 million Euros for the investment was signed with the Austrian company, Andritz AG. Meanwhile, another letter of intent was signed with a German company, Voith Paper, for 3.05 million Euros to finance the purchase of a new winder.

Kartonsan will continue to consistently pursue sustainable growth throughout its region by deploying its logistical advantages provided by Turkey's geographical position, its high-quality product mix and its attention to customer satisfaction-focused service.

A producer that distinguishes itself from competition with its product and service quality

While imported coated cardboard products put pressure on the market during 2012 and the competition became noticeably fiercer, Kartonsan differentiated itself in the market by maintaining its outstanding product and service quality and sustaining its sales without entering price competition, instead working with its advantage of fast delivery from inventories.

In the domestic market, Kartonsan faced particularly strong competition from European producers in the WLC (white lined chipboard) segment. As well as the two largest European producers, a number of other producers increasingly gained a foothold in the Turkish market.

The recession in Europe and the strong TL, which attracted imports, were the two driving forces behind this development. Indeed, a number of producers facing a sales squeeze and in need of liquidity even sold at prices below the general import price levels.

Developments in our product mix

Normprint was the best-selling product among Kartonsan's range in 2012, accounting for 58% of total sales last year with the remainder consisting of Luxtriplex (23%) and Exprint (19%).

The biggest YoY rise in sales last year took place in the Normprint 200/225 category, which is used in plaster operations. Most notably, the increased use of cardboard boxes for fresh vegetables and fruits, particularly in exports, led to a rise in plaster oriented operations.

Kartonsan also continued to improve its product portfolio with new basis weight options. (See page 4).

Kartonsan's products are coated cardboards that are traditionally popular in export markets as well as in Turkey. Kartonsan's coated cardboards, which are accepted as a classical design, set themselves apart with value added they provide to their clients and represent a production and service culture that dates back nearly to 50 years ago.

Applications to support customer satisfaction

Kartonsan continued its work to increase customer satisfaction during 2012. The most acclaimed innovation of the year was the start of domestic sales deliveries to clients' warehouses, including transportation services.

Sales conducted through ex-factory and transportation procedures had previously been organized by customers, but from June 2012, sales were brought under Kartonsan's transportation organization without saddling the customer with additional costs. This application, which provides ease of cost and operations, includes door-to-door delivery in each region throughout Turkey.

Kartonsan took part in DRUPA 2012.

In 2012, Kartonsan gained prominence by participating in DRUPA, widely acclaimed as the biggest meeting of the press and paper industries.

Kartonsan had the opportunity to meet its stakeholders from all over the world in the DRUPA meeting, which was organized in Dusseldorf, Germany between May 3rd and 16th, 2012.

The stand designed especially for the DRUPA meeting and which presented Kartonsan's strength as a producer in plain expressions and outstanding pictures attracted a good deal of interest from international visitors during the expo.

Kartonsan determined its primary purpose as developing new relations in North Africa during the expo. The connections established accordingly immediately yielded results, leading to export sales to Egypt following the expo. As a result of marketing exercises conducted in DRUPA, Kartonsan has also started preliminary work with a firm that will represent the Kartonsan brand in Germany.

A business approach focused on production efficiency and sustaining high levels of production

Kartonsan implements an efficiency policy aimed at the control of the cost curve steadily and balancing it at the optimal level. Another target of the Company's efficiency policy is to maintain and increase profitability in the short and medium term. Accordingly, Kartonsan seeks a sales profile that will provide the highest revenues and maintain the highest level of production. Kartonsan also minimized lags in the production process and continued to undertake investments aimed at reducing costs in 2012.

Kartonsan's success formula and customer satisfaction

The pillars of the sustainability of growth, development and success at Kartonsan are its market experience in production and trade, its know-how and its strong corporate and financial structure.

In this context Kartonsan;

- has an ability to correctly detect, understand and satisfy market demand;
- has been deploying technology intensively in its decision making and management processes. Kartonsan works in accordance with the effective process approach in cost efficiency and profitability;
- manages market and production risks accurately and carefully pursues ethical values;
- respects the environment and the cultural values of the society;
- makes no concessions to its focus on quality and the customer;
- maintains and continuously builds on its high quality standards in production with its strategic investments.

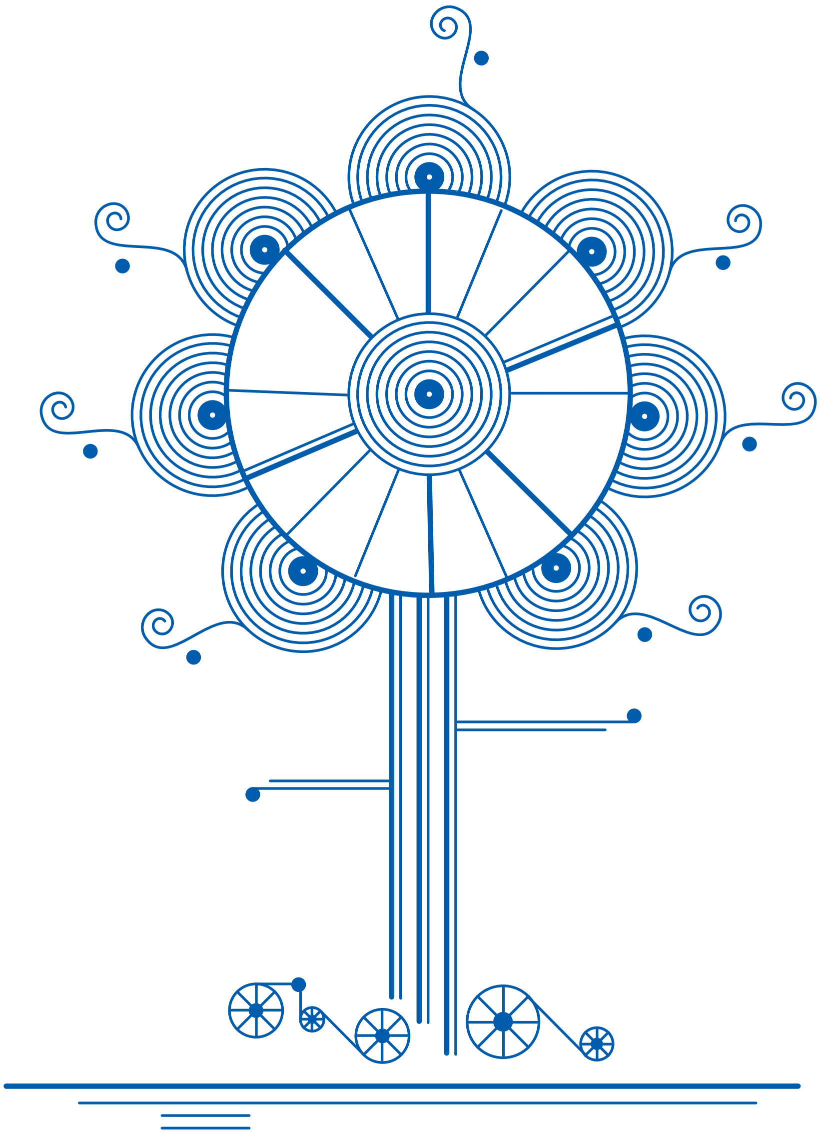
Kartonsan conducts its all operations with a focus on customer satisfaction.

Continuing the customer representative practice in 2012, Kartonsan conducted more customer visits and forged closer contacts with its customers. This enabled Kartonsan to follow the markets closely and respond customers' demands quickly and accurately.

Findings collected from the field were used to enhance Kartonsan's customer satisfaction and develop accurate policies. Kartonsan continued its activities to improve its performance of on-time deliveries, develop product quality and offer better payment conditions in a bid to raise customer satisfaction.

2013 targets for Kartonsan

- Kartonsan will maintain its efforts to hold onto its existing positions both in Turkey and in international markets while also exploring and entering new markets in 2013.
- Foremost among Kartonsan's activities to achieve these goals in 2013 will be planning and undertaking visits to customers as well as participating in trade expos in Turkey and abroad. Interactions with customers will give particular attention to making listeners better aware of the logistical service and product quality advantages which the Company has to offer.
- Supporting the sustainability of Kartonsan's activities has always been one of the Company's prime objectives. To this end, efforts in 2013 will focus on better dealing with the fiber losses that are incurred when using recovered paper; optimizing consumption and costs by procuring and using chemical alternatives; reducing the amounts of water that are used; improving the energy efficiency of operations.
- Under the heading of social responsibility activities, Kartonsan will work on further improving employee health and safety during 2013 while improving the working environment at its workplaces and increasing both customer and employee satisfaction.



As a manufacturer with a strong sense of social responsibility, Kartonsan demonstrates its respect for the environment by

- maximizing the use of recycled paper in its manufacturing,
- generating its own energy and steam,
- purifying its waste water with the most modern techniques.

Kartonsan and the environment

The concepts of protecting and respecting the environment are treated with crucial importance in Kartonsan's economic and business cycles.

Production processes were changed significantly with the industrial revolution, which started in the mid-19th century.

The damage and pollution to the environment that resulted from the increase in industrialization, and a problem that has been exacerbated by globalization, has become a global issue and it has emerged as key issue not only for developed countries but also for emerging countries.

The increase in environmental issues has brought enterprises new responsibilities that go beyond economic performance. Ensuring sustainability and tackling climate change are now areas which enterprises need to pay close attention to in order to survive and create value in the medium and longer term.

With the perception that environmental problems are global issues rather than regional ones, there has been a rise in awareness of the global environment. In line with notions of development based on the philosophy of social responsibility and the efficient use of resources, protecting the environment, preventing pollution, controlling the use of natural resources and eliminating pollution have all been gaining importance for enterprises day by day.

Legislation prepared in Turkey in recent years and the EU regulations on environmental issues require enterprises to monitor and analyze their activities from an environmental perspective.

The production process in enterprises is defined in three stages as input-process-output. When each of these stages are considered from an environmental perspective, the results are noted as the loss of natural resources, as a consequence of using scarce resources, at the input stage; damage caused by solid, liquid and gaseous waste, as well as products, in the production stage; and finally, pollution as a consequence of using the product in the output stage.

Protecting the environment: A basic target for the sustainability of Kartonsan and the world

Protecting and respecting the environment are treated with the highest importance in Kartonsan's economic and business cycles. As a manufacturer with a strong sense of social responsibility, Kartonsan demonstrates its respect for the environment by:

- maximizing the use of recycled paper in its manufacturing,
- generating its own electricity and steam,
- purifying its waste water with the most modern techniques.

In Kartonsan's process approach, the environmental dimension is considered in each activity from input to output, by taking the above elements into consideration. Processes are planned in accordance to these dimensions.

In accordance with Kartonsan's Integrated Management System policy, reducing the consumption of natural resources is one of the most important targets that the management determines at the end of each year for the following year.

Use of recycled paper

Kartonsan achieves recovered paper utilization rates of up to 99% in its coated cardboard production. It works closely with its subsidiary, Dönkasan, in its recovered paper procurement and management operations. Kartonsan also holds a recycling plant license issued by the Ministry of Environment and Urbanization. In 2012 Kartonsan made use of 172,544 tons of waste paper as economically recoverable inputs in its manufacturing.

Energy generation

Kartonsan generates electricity from four natural gas-fired turbines and steam from a waste heat recovery boiler. It utilizes the exhaust heat to produce steam. The Company sells the excess electricity to the national grid.

Kartonsan generated a total of 125,726,858 kWh of electricity in 2012, of which it sold 19,118,750 kWh. Last year, the Company also generated 313,682 tons of steam of which 101,549 tons and 191,832 tons were used in its BM1 and BM2 production operations, respectively.

Kartonsan and the environment

As a company well aware of its environmental, quality, and social responsibilities, Kartonsan carries out its all activities under an integrated management system for which it holds ISO 9001 Quality Management System, ISO 14001 Environmental Management System, and OHSAS 18001 Occupational Health & Safety Assessment Series certifications.

Waste water

An important goal for Kartonsan is to make the most effective use possible of limited natural resources. The Company has its own waste water treatment system, equipped with state-of-the-art technology, with a treatment capacity of 5,000 m^3 per day. About 45% of Kartonsan treated waste water is reused in its production operations.

Solid waste

In late 2010 substantial regulatory changes governing the management of solid waste in Turkey entered effect. Under the new rules, all solid waste that is produced must either be eliminated or reused.

Kartonsan reviewed its solid waste management processes in light of the new rules and implemented such changes as were required. Kartonsan incurred additional costs of about TL 6 million in order to bring itself into compliance with these new environmental protection regulations.

Kartonsan Integrated Management System

Highly aware of its environmental, quality, and social responsibilities, Kartonsan carries out all of its activities under an integrated management system, for which it holds the ISO 9001 Quality Management System certificate, the ISO 14001 Environmental Management System certificate and the OHSAS 18001 Occupational Health & Safety Assessment Series certificate.

Throughout the year Kartonsan offered its personnel training on issues such as occupational health and safety, job-related accident awareness, personal safety equipment and its use, and environmental awareness. A total of 311 man-hours of training on worker health issues were provided by staff working at the Company's own infirmary. A total of 520 people received 1,687 hours of training on occupational health and safety issues given by occupational safety specialists.

On 30 October 2012, the recertification auditing for the sustainability of Kartonsan's integrated management system was completed successfully.

The table below gives a breakdown of Kartonsan's use of cellulose and recovered paper.

Paper by Nature and FSC certification activities

The goals of FSC-CoC certification are to ensure that the world's forestry resources are correctly managed, to define applicable methods and standards for this, to ensure that any forestry products used are from responsibly harvested and verified sources, and to prevent undocumented forest products from entering the supply chain of certified products at any point. Kartonsan successfully completed its first interim auditing by BM Trada in December 2012.

As a result of the Paper by Nature and FSC-CoC certification activities conducted by Kartonsan in line with its efforts to ensure sustainability of forestry products, the Company received the FSC-CoC certification for all products in its product range and the Paper by Nature certificate for its Normprint product, which is manufactured 100% from recycled paper.

Kartonsan's use of cellulose and recovered paper in 2009-2012 (tons)

	Total gross production	Total cellulose consumption	Total waste paper consumption
2009	138,773	2,348	145,846
2010	169,633	2,092	180,654
2011	177,003	2,452	175,690
2012	174,573	1,223	172,544

Kartonsan and human resources

One of Kartonsan's fundamental corporate objectives is the continued existence of a workplace environment which encourages employee participation and which places the highest respect on human rights.

The architects of sustainable growth

Kartonsan owes its continuous growth and development to its employees, who are not only producers but also loyal to corporate culture, believe in the power of production, conduct research and enhance and accept development as a responsibility to the general public.

As of 2012 Kartonsan had 264 people on its payroll; 12.2% of Kartonsan's personnel were employed at the head office, while the remaining 87.8% work in Kartonsan plant in Kocaeli. Some 34% of Kartonsan's personnel are white-collar and 66% are blue-collar employees.

At end-2012:

- 27 of Kartonsan's employees were 25 years of age, or younger;
- 126 were between the ages of 26 and 35;
- 71 were between the ages of 36 and 45;
- 40 were at least 46 years of age.

Training activities

Attaching great importance to updating its employees' technical and occupational competencies, Kartonsan continued to extend various occupational and technical training opportunities to its employees throughout the year. A total of 34 different training programs were conducted with a total of 19.56 hours of training given per employee.

The underlying and shared objective of all training activities is to maximize Kartonsan's overall effectiveness and productivity as much as possible through occupational and personal training programs that address employees' actual needs.

Developments in labor relations

Kartonsan has a long history of labor-union relations and the Company seeks to be a role model for others in its scrupulous approach to dealing with such matters. A total of 57.57% of Kartonsan's employees are members of a labor union. In 2012, the terms of the collective bargaining agreement was followed fully for employees that are members of labor unions. To renew the collective bargaining agreement that ended on 31 August 2012, negotiations started between Kartonsan and Selüloz İş, a trade union for those employed in the paper and paper products industry and which represents 152 employees.

The workplace environment and employee satisfaction at Kartonsan

One of Kartonsan's fundamental corporate objectives is to ensure the continued existence of a workplace environment which encourages employee participation and which is fully respects human rights. To this end, Kartonsan strives to ensure the sustainable existence of a workplace environment which rewards success, which incentivizes individual development and taking initiatives, and which has the highest standards of health and safety.

A corporate-culture recognition and employee-satisfaction survey is currently being carried out at Kartonsan. The results of this survey are expected to be released in May 2013.

HR: Basic indicators*	**2011****	**2012****
Total number of employees	437	440
Contractor personnel	183	176
Kartonsan	254	264
Men	232	240
Women	22	24
Average age (years)	36	35
HR: Educational background indicators		
Master's degree or doctorate	12	10
Bachelor's degree	28	34
Vocational high school	48	58
High school	147	143
Elementary school	19	19
Competency in one foreign language	52	52
Competency in two or more foreign languages	11	8

* Actual number of people unless otherwise indicated.
** Average (as of end-December 202) for the year.

To ensure ongoing occupational safety, factories' physical and technical equipment and conditions are checked regularly. Monitoring and feedback systems are developed so any potential problems can be quickly identified and dealt with effectively.

Occupational health and safety at Kartonsan

Employees' health and safety is an integral part of Kartonsan's human resources policy. The Company is mindful of the need to fully comply with the requirements of occupational health and safety legislation and regulations, as they are applicable in Turkey at all of its headquarters and factory premises. In addition, Kartonsan follows contemporary occupational health and safety applications being carried out throughout the world and puts innovative applications in practice. The Human Resources and Quality Systems departments at Kartonsan are responsible for occupational health and safety matters.

To ensure ongoing occupational safety, factories' physical and technical equipment and conditions are checked regularly. Monitoring and feedback systems are developed, so any potential problems can be quickly identified and dealt with effectively.

Kartonsan's Occupational Health and Safety Committee is engaged in an ongoing and effective effort to ensure that corrective and preventive measures are taken to reduce work-related accidents and illnesses through training, improvements, and employee health screenings.

As part of occupational health and safety practices, risk evaluations were reevaluated on a process and location basis throughout 2012, while renewal activities were held and training related to this issue was organized for employees.

There were no loss of life at any of Kartonsan's premises in 2012, but there were some minor lacerations in work related accidents, and necessary precautions and remedial actions were subsequently taken.

Kartonsan's occupational safety goal is to achieve and maintain a zero accident rate at its workplaces.

Kartonsan's quality-environment-occupational health and safety policy

Seeking to maintain its stature as a leader in Turkey and its competitive position in world markets, Kartonsan has adopted and adheres to a policy on quality, the environment and occupational health and safety that is committed to:

- Continuously improving the effectiveness of its quality, environment, and occupational health and safety management systems through the use of the right human resources, appropriate technology, and essential financial resources;
- Continuously developing its product and service quality in line with customers' wishes and expectations;
- Attaching importance to health and safety in all of its employees' activities in order to prevent work-related accidents and illnesses and to be an organization which is transparent and participatory and which learns and develops through constant training;
- Preventing environmental pollution, making effective and productive use of natural resources, using recycled inputs and manufacturing recyclable products;
- Complying with the requirements of applicable laws and regulations and abiding by the criteria and prescriptions of ISO 9001 Quality Management, ISO 14001 Environmental Management, and OHSAS 18001 Occupational Health & Safety Assessment system standards;
- Engaging in multilateral communication in order to ensure the ongoing confidence and satisfaction of its customers, its suppliers, its employees, its business partners, and its community.

Kartonsan and corporate social responsibility

Kartonsan has been undertaking social responsibility activities for long years and transferred a part of its production to public which is Kartonsan's largest stakeholder.

Kartonsan has been undertaking social responsibility activities for many years and has transferred a part of its production to the public, which is Kartonsan's largest stakeholder.

Education and environment are two main fields in which Kartonsan undertakes social responsibility activities. A summary of the activities that took place in these fields is provided below.

Başiskele Primary School Project

In the first quarter of 2012, Kartonsan completed the construction of a primary school in the district of Başiskele where its factory is located in. The school, which has 16 classrooms and a capacity for 500 school pupils, opened its doors in the 2012-2013 academic year.

Kartonsan Primary school (Kullar Village, Kocaeli)

Kartonsan has been continuously supporting the Kartonsan Primary School in the village of Kullar, located in the province of Kocaeli, where its factory is located.

Cooperation with Kocaeli University

The Company provided students from the paper technology department at the Kullar Vocational School in Kocaeli University with the opportunity to examine the production process in theory and practice, visiting the Kartonsan factory in groups.

As of December 2012, a 2 ½ hour group lecture was provided to 26 students by the Production Supervisor at Kartonsan. Meanwhile, some of the 6th term medicine students from department of Public Health at the faculty of Medicine's department of internal medical sciences at Kocaeli University undertook part of their internship in the infirmary at Kartonsan's factory.

Support for waste paper collection programs

As required by packaging waste control regulations in Turkey, Kartonsan - which also operates as a packaging waste recycling firm - collects the packaging wastes generated from its operations and which it cannot utilize in its structure, and hands them to licensed recycling firms.

SELKA İç ve Dış Ticaret A.Ş.

SELKA İç ve Dış Ticaret A.Ş. is a subsidiary of Kartonsan. SELKA is Kartonsan's largest supporter in the marketing of customized products while also providing Kartonsan with logistical services through its storage facilities located in İstanbul-Sefaköy.

SELKA achieved all of its sales targets in 2012 and registered a 12% YoY increase in its sales revenues.

Donations by Kartonsan - TL (as of 31 December 2012)	
Donations to primary and secondary schools, and universities	20,949.84
Donations to foundations (educational, sports, and social)	7,950.00
Construction expenditures for an education-related building that is being erected as a charitable donation	1,539,404.38
Donations to other institutions	53,799.60
Total	**1,622,103.82**

Corporate Governance and Financial Information

Kartonsan Karton Sanayi ve Ticaret Anonim Şirketi

Summary of legal auditor's report

A- About Partnership

1- Name of the Company	Kartonsan Karton Sanayi ve Ticaret A.Ş.
2- Center Office	İstanbul
3- Share Capital	TL 2,837,014.21
4- Subject of Operation	Production of glossy paper and others mentioned in the Articles of Association.

B- Auditors

1- Name and Surname	Erdal Çalıkoğlu	Hakan Hasan Arı
2- Period of Duty	01.01.2012- 31.12.2012	01.01.2012- 31.12.2012
3- Partnership	No Partnership	No Partnership
	Not a Company Employee	Not a Company Employee

C- The Board of Directors Meetings Attended

In accordance with Main Article of Association; the board of directors are to be meet at least once a month however in the year 2012, 25 meetings have been realized. Our auditing committee has been invited to all these meetings and entire cases as subject of meetings were committed to us as well. And our auditing committee has attended to some of these meetings.

D- Examinations on Accounts, Books of Accounts and Documents

By examining the monthly operational reports which are prepared and sent to our Auditing Committee by the Board of Directors and which comprise the workings of production, sales, purchasing, profitability and investments of our Company and also by attending to the meetings of Board of Directors; our Auditing Committee has obtained continuous information about the operations, accounting and recording systems of the Company and has performed audits in the last weeks of the months 3, 6, 9 and 12; and finally come to resolution that records are kept properly and on time.

E- Cashier's Office Examinations and Results

In consistent with Article 353, paragraph 3 of Turkish Commercial Code, 4 counting procedures have been realized in the year 2012 and neither error nor missing has been determined in comparison to legal records.

F- Results of Examinations and Counts

In consistent with Article 353, paragraph 4 of Turkish Commercial Code; in the examinations realized in the last week of each month, it has been confirmed that legal documents are consistent with the books of accounts.

G- Complaints and Frauds

In the year 2012, there is neither complaint nor fraud determined or heard.

We have audited the accounting transactions of Kartonsan Karton Sanayi ve Ticaret A.Ş. for the period ended 01.01.2012- 31.12.2012 in consistent with Turkish Commercial Code, Main Article of Association of Partnership, other legislations and generally accepted accounting principles as well.

In our opinion; attached balance sheets prepared as of 31.12.2012 and which we approved their contents reflect the actual financial position of the Company; and the income statement for the period 01.01.2012- 31.12.2012 also reflect the actual results of its operations totally correct and moreover the offer for profit distribution is in consistent with both Laws and Main Article of Association. We would kindly like to present balance sheet and income statement for approval and the Board of Directors to be acquitted.

Auditor	Auditor
Erdal Çalıkoğlu	Hakan Hasan Arı

Kartonsan Karton Sanayi ve Ticaret Anonim Şirketi

Audited balance sheet

(Prepared within the context of CMB communique serie: XI no:29)
(Currency - In Turkish Lira unless otherwise indicated.)

	Audited Current Period 31.12.2012	Audited Previous Period 31.12.2011
ASSETS		
Current Assets	**159,276,715**	**135,565,281**
Cash and Cash Equivalents	81,817,078	62,234,087
Trade Receivables	26,366,378	24,845,438
Other Receivables	2,099,941	106,705
Inventories	48,054,073	43,864,387
Other Current Assets	939,245	4,514,664
Total	**159,276,715**	**135,565,281**
Long-Term Assets	**88,639,267**	**93,072,130**
Other Receivables	6,447	6,447
Financial Investments	12,609,081	12,609,081
Investment Properties	229,270	229,270
Tangible Assets	75,026,044	79,441,051
Intangible Assets	166,906	48,669
Other Long-Term Assets	601,519	737,612
TOTAL ASSETS	**247,915,982**	**228,637,411**

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

Kartonsan Karton Sanayi ve Ticaret Anonim Şirketi

Audited balance sheet

(Prepared within the context of CMB communique serie: XI no:29)
(Currency - In Turkish Lira unless otherwise indicated.)

	Audited Current Period 31.12.2012	**Audited Previous Period 31.12.2011**
LIABILITIES		
Short-Term Liabilities	**25,117,211**	**23,003,255**
Financial Liabilities	327,409	32,314
Trade Payables	20,032,953	18,205,870
Other Payables	2,423,518	2,680,152
Period Profit Tax Liabilities	1,185,277	1,411,194
Accrued Payables	1,148,054	673,725
Total	**25,117,211**	**23,003,255**
Long-Term Liabilities	**4,575,003**	**4,541,973**
Provision For Termination Indemnity	3,491,198	3,125,522
Deferred Tax Liabilities	1,083,805	1,416,308
Other Long-Term Liabilities	-	143
SHAREHOLDERS' EQUITY	**218,223,768**	**201,092,183**
Main Shareholders' Equity	**218,223,768**	**201,092,183**
Capital	2,837,014	2,837,014
Inflation Adjustment of Shareholders' Equity Items	93,298,658	93,298,658
Premium in Excess of Par	7,529	7,529
Restricted Reserves	22,649,595	21,750,497
Retained Earnings	73,166,551	47,289,283
Net Profit / (Loss) for the Period	26,264,421	35,909,202
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**247,915,982**	**228,637,411**

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

Kartonsan Karton Sanayi ve Ticaret Anonim Şirketi

Audited income statement

(Prepared within the context of CMB communique serie: XI no:29)
(Currency - In Turkish Lira unless otherwise indicated.)

	Current Period 31.12.2012	Previous Period 31.12.2011
CONTINUED OPERATIONS		
Sales	200,587,693	200,883,939
Cost Of Sales (-)	(159,797,222)	(153,890,631)
Gross Profit / (Loss) from Trade Operations	**40,790,471**	**46,993,308**
GROSS PROFIT / (LOSS)	**40,790,471**	**46,993,308**
Marketing, Selling and Distribution Expenses (-)	(6,724,297)	(3,595,067)
General Administration Expenses(-)	(7,264,940)	(6,705,567)
Other Operations Incomes	2,268,005	1,607,948
Other Operations Expenses (-)	(2,583,132)	(2,213,542)
OPERATION PROFIT / (LOSS)	**26,486,107**	**36,087,080**
The Profit/(Loss) of Investments Evaluated According to Equity Method		
Financial Incomes	13,209,541	13,302,757
Financial Expenses (-)	(6,849,413)	(4,297,907)
CONTINUED OPERATIONS PROFIT / (LOSS) BEFORE TAX	**32,846,235**	**45,091,930**
Continued Operations Tax Profit / (Loss)	**(6,581,814)**	**(9,182,728)**
- Current Period Tax Income / (Expense)	(6,914,317)	(9,158,755)
- Deferred Tax Income / (Expense)	332,503	(23,973)
CONTINUED OPERATIONS PERIOD PROFIT / (LOSS)	**26,264,421**	**35,909,202**
DISCONTINUED OPERATIONS		
Discontinued Operations Profit / (Loss) After Tax		
PERIOD PROFIT / (LOSS)	**26,264,421**	**35,909,202**
Distribution of Period Profit / (Loss)		
Main Partnership Share	26,264,421	35,909,202
Net Earnings Per Share	9.26	12.66

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

Kartonsan Karton Sanayi ve Ticaret Anonim Şirketi

Consolidated financial statements for the year 1 January - 31 December 2012 and independent auditor's report

Kartonsan Karton Sanayi ve Ticaret Anonim Şirketi

Independent auditor’s report

To the Board of Directors of Kartonsan Karton Sanayi ve Ticaret Anonim Şirketi

1. We have audited the accompanying consolidated financial statements of Kartonsan Karton Sanayi ve Ticaret Anonim Şirketi, its Subsidiary and Joint Venture (collectively referred to as the “Group”) which comprise the consolidated balance sheet as of 31 December 2012 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Group Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

4. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Kartonsan Karton Sanayi ve Ticaret Anonim Şirketi as of 31 December 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the financial reporting standards accepted by the CMB (Note 2).

Additional paragraph for Convenience translation into English

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

Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. a member of PricewaterhouseCoopers

Cihan Harman, SMMM
Partner

Istanbul, 20 February 2013

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Kartonsan Karton Sanayi ve Ticaret Anonim Şirketi

Consolidated balance sheets at 31 December 2012 and 2011

(Convenience translation into English of consolidated financial statements originally issued in Turkish)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	31 December 2012	31 December 2011
ASSETS			
Current Assets			
Cash and Cash Equivalents	6	85,021,211	63,626,032
Trade Receivables	8	27,857,169	25,771,032
Other Receivables	9	2,365,943	118,046
Inventories	10	52,659,749	50,288,483
Other Current Assets	17	1,651,268	5,916,164
Total Current Assets		**169,555,340**	**145,719,757**
Non-current Assets			
Other Receivables	9	6,447	6,447
Investment Properties	11	229,270	229,270
Property, Plant and Equipment	12	77,727,080	82,233,490
Intangible Assets	13	188,887	62,588
Other Non-Current Assets	17	601,519	737,862
Total Non-Current Assets		**78,753,203**	**83,269,657**
Total Assets		**248,308,543**	**228,989,414**

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

Kartonsan Karton Sanayi ve Ticaret Anonim Şirketi

Consolidated balance sheets at 31 December 2012 and 2011

(Convenience translation into English of consolidated financial statements originally issued in Turkish)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	31 December 2012	31 December 2011
LIABILITIES			
Current Liabilities			
Financial Liabilities	7	363,539	62,557
Trade Payables	8	16,100,017	15,216,483
Other Payables	9	2,948,897	3,135,586
Current Income Tax Liabilities	25	1,216,331	1,496,570
Provisions	15	1,207,336	695,618
Total Current Liabilities		**21,836,120**	**20,606,814**
Non-Current Liabilities			
Provision for Employment Termination Benefits	16	4,226,720	3,713,613
Deferred Tax Liabilities	25	970,872	1,308,010
Other Non-current Liabilities		-	143
Total Non-Current Liabilities		**5,197,592**	**5,021,766**
Total Liabilities		**27,033,712**	**25,628,580**
EQUITY			
Equity Attributable to Equity Holders of the Parent	18	**221,228,290**	**203,319,323**
Paid-in Capital		2,837,014	2,837,014
Adjustment to Paid-in Capital		93,298,657	93,298,657
Share Premium		7,529	7,529
Legal Reserves		24,253,234	23,348,454
Retained Earnings		73,770,237	46,873,952
Net Income for the Year		27,061,619	36,953,717
Non-controlling Interest		**46,541**	**41,511**
Total Equity		**221,274,831**	**203,360,834**
TOTAL LIABILITIES AND EQUITY		**248,308,543**	**228,989,414**

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

Kartonsan Karton Sanayi ve Ticaret Anonim Şirketi

Consolidated statements of comprehensive income for the years ending 31 December 2012 and 2011

(Convenience translation into English of consolidated financial statements originally issued in Turkish)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	2012	2011
CONTINUING OPERATIONS			
Sales	19	213,009,879	211,305,096
Cost of Sales (-)	19	(169,984,183)	(162,047,379)
Gross Profit from Trade Operations		**43,025,696**	**49,257,717**
GROSS PROFIT		**43,025,696**	**49,257,717**
Marketing, Selling and Distribution Expenses (-)	21	(7,191,680)	(3,766,691)
General Administrative Expenses (-)	21	(8,512,063)	(7,689,830)
Other Operating Income	22	2,043,610	1,849,978
Other Operating Expenses (-)	22	(2,692,041)	(2,272,841)
OPERATING PROFIT		**26,673,522**	**37,378,333**
Financial Income	23	14,334,640	13,693,635
Financial Expenses (-)	24	(7,114,758)	(4,443,325)
INCOME BEFORE TAX FROM CONTINUING OPERATIONS		**33,893,404**	**46,628,643**
Continuing Operations Tax		**(6,825,704)**	**(9,666,929)**
- Current Income Tax	25	(7,162,842)	(9,690,489)
- Deferred Tax	25	337,138	23,560
INCOME FOR THE YEAR FROM CONTINUING OPERATIONS		**27,067,700**	**36,961,714**
NET INCOME FOR THE YEAR		**27,067,700**	**36,961,714**
OTHER COMPREHENSIVE INCOME			
Other Comprehensive Income		-	-
Tax Income and Expenses on Other Comprehensive Income		-	-
OTHER COMPREHENSIVE INCOME (AFTER TAX)	**-**	-	
TOTAL COMPREHENSIVE INCOME		**27,067,700**	**36,961,714**
Net Income for the Year Attributable to:		**27,067,700**	**36,961,714**
Non-controlling Interest		6,081	7,997
Equity Holders of the Parent		27,061,619	36,953,717
Earnings per Share	26	9.53877	13.02557

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

Kartonsan Karton Sanayi ve Ticaret Anonim Şirketi

Consolidated cash flow statements for the years ending 31 December 2012 and 2011

(Convenience translation into English of consolidated financial statements originally issued in Turkish)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	2012	2011
A) Cash Flows from Operating Activities			
Net Income for the Year from Continuing Operations		**33,893,404**	**46,628,643**
Adjustments			
Depreciation and Amortisation	12,13	11,533,863	10,935,819
Provision for Employment Termination Benefits	16	1,423,201	815,174
Deferred Interest Income from Sales on Credit Terms	8	(57,433)	12,488
Provision for Doubtful Receivables	8	101,564	92,987
Released Provisions for Doubtful Receivables	8	(410)	(98,343)
Provisions	15	511,718	(147,841)
Gain on Sale of Property, Plant and Equipment	22	(70,714)	-
Interest Expense	24	2,691,808	2,097,303
Interest Income	23	(9,315,192)	(7,825,037)
Unincurred Interest Expense from Purchases on Credit Terms	8	40,445	(81,324)
Operating Income before Changes in Working Capital		**40,752,254**	**52,429,869**
Increase in Trade and Other Receivables	8,9	(4,377,755)	(3,241,457)
Increase in Inventories	10	(2,371,266)	(17,492,736)
Increase in Trade and Other Payables	8,9	656,257	2,983,600
Decrease / (Increase) in Order Advances Given	17	3,347,927	(2,532,609)
(Increase) / Decrease in Other Current and Non-Current Assets	17	1,053,312	564,823
Cash Generated from Operating Activities		**39,060,729**	**32,711,490**
Taxes Paid	25	(7,443,081)	(9,137,982)
Employment Termination Benefits Paid	16	(910,094)	(747,359)
Net Cash Generated from Operating Activities		**30,707,554**	**22,826,149**
B) Cash Flows from Investing Activities			
Purchases of Tangible and Intangible assets (-)	12,13	(7,239,734)	(6,321,356)
Proceeds from Sale of Tangible and Intangible Assets	12,13	156,696	766,641
Net Cash Used in Investing Activities		**(7,083,038)**	**(5,554,715)**
C) Cash Flows from Financing Activities			
Increase / (Decrease) in Financial Liabilities	7	300,982	(263,332)
Dividends Paid	18	(9,153,703)	(3,346,034)
Interest Received/ (Paid), Net		6,641,693	5,631,707
Net Cash (Used in) / Generated from Financing Activities		**(2,211,028)**	**2,022,341**
Net Increase in Cash and Cash Equivalents		**21,413,488**	**19,293,775**
Cash and Cash Equivalents at the Beginning of the Year	**6**	**63,400,552**	**44,106,777**
Cash and Cash Equivalents at the End of the Year	**6**	**84,814,040**	**63,400,552**

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

Kartonsan Karton Sanayi ve Ticaret Anonim Şirketi

Consolidated statements of changes in equity for the years ending 31 December 2012 and 2011

(Convenience translation into English of consolidated financial statements originally issued in Turkish)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Paid-in Capital	Adjustment to Paid-in Capital	Share Premium	Legal Reserves
1 January 2012	**2,837,014**	**93,298,657**	**7,529**	**23,348,454**
Transfers to Retained Earnings	-	-	-	-
Transfers to Legal Reserves	-	-	-	904,780
Dividends Paid	-	-	-	-
Total Comprehensive Income	-	-	-	-
31 December 2012	**2,837,014**	**93,298,657**	**7,529**	**24,253,234**

	Paid-in Capital	Adjustment to Paid-in Capital	Share Premium	Legal Reserves
1 January 2011	**2,837,014**	**93,298,657**	**7,529**	**22,948,260**
Transfers to Retained Earnings	-	-	-	-
Transfers to Legal Reserves	-	-	-	400,194
Dividends Paid	-	-	-	-
Total Comprehensive Income	-	-	-	-
31 December 2011	**2,837,014**	**93,298,657**	**7,529**	**23,348,454**

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

Consolidated statements of changes in equity for the years ending 31 December 2012 and 2011

(Convenience translation into English of consolidated financial statements originally issued in Turkish)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

Retained Earnings	Attributable to Net Income for the Year	Equity Holders of the Parent	Non-controlling Interest	Total Equity
46,873,952	**36,953,717**	**203,319,323**	**41,511**	**203,360,834**
36,953,717	(36,953,717)	-	-	-
(904,780)	-	-	-	-
(9,152,652)	-	(9,152,652)	(1,051)	(9,153,703)
-	27,061,619	27,061,619	6,081	27,067,700
73,770,237	**27,061,619**	**221,228,290**	**46,541**	**221,274,831**

Retained Earnings	Attributable to Net Income for the Year	Equity Holders of the Parent	Non-controlling Interest	Total Equity
33,044,125	**17,569,558**	**169,705,143**	**40,011**	**169,745,154**
17,569,558	(17,569,558)	-	-	-
(400,194)	-	-	-	-
(3,339,537)	-	(3,339,537)	(6,497)	(3,346,034)
-	36,953,717	36,953,717	7,997	36,961,714
46,873,952	**36,953,717**	**203,319,323**	**41,511**	**203,360,834**

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Kartonsan Karton Sanayi ve Ticaret A.Ş.'s (the "Company" or "Kartonsan") principal activity is the production and trade of coated cardboard. Kartonsan is registered with the Capital Markets Board of Turkey ("CMB") and its shares have been traded on the Istanbul Stock Exchange ("ISE") since 1985. All shares are quoted on ISE. Kartonsan's 25.65% shares are free floating. The Company's ultimate controlling party is PAK Family members through PAK Group Companies (Note 18).

The Company's registered address is Prof. Dr. Bülent Tarcan Cad. No: 5 Pak İş Mrk. Kat: 3 Gayrettepe/ ISTANBUL. The Company's headquarters is located in Istanbul and it has a manufacturing plant located in Kullar Köyü 41001 Kocaeli.

Selka İç ve Dış Ticaret A.Ş.'s ("Selka"), the subsidiary of the Company located in Istanbul, principal activity is the trade of coated cardboard.

Dönkasan Dönüşen Kağ. Ham. San. ve Tic. A.Ş.'s ("Dönkasan"), the joint venture of the Company located in Istanbul, principal activity is to purchase, classify, bale, pack, store scrap of every kind of paper, cardboard, metallic glass etc., to subcontract and/or be a subcontractor to these activities and to perform marketing activities.

Hereafter, the Company, its subsidiary and joint venture will be referred as the "Group" in the consolidated financial statements and notes thereto.

As of 31 December 2012, the number of employees of the Group is 275 people (2011: 271) excluding the subcontracted employees.

These consolidated financial statements have been approved for issue by the Board of Directors meeting numbered YK/2013-05 on 20 February 2013 and signed on its behalf by, Haluk İber, General Manager and Board Member and Ünal Bozkurt, Vice Chairman of the Board of Directors.

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with the accounting and reporting principles accepted by the Capital Markets Board ("CMB"), namely "CMB Financial Reporting Standards".

CMB regulated the principles and procedures of preparation, presentation and announcement of financial statements prepared by the entities with the Communiqué No: XI-29, "Principles of Financial Reporting in Capital Markets" ("the Communiqué").

This Communiqué is effective for the annual periods starting from 1 January 2008 and supersedes the Communiqué No: XI-25, "The Financial Reporting Standards in the Capital Markets". According to the Communiqué, entities shall prepare their financial statements in accordance with International Financial Reporting Standards ("IAS/IFRS") endorsed by the European Union. Until the differences of the IAS/IFRS as endorsed by the European Union from the ones issued by the International Accounting Standards Board ("IASB") are announced by Turkish Accounting Standards Board ("TASB"), IAS/IFRS issued by the IASB shall be applied. Accordingly, Turkish Accounting Standards/Turkish Financial Reporting Standards ("TAS/TFRS") issued by the TASB which are in line with the aforementioned standards shall be considered.

As the differences of the IAS/IFRS endorsed by the European Union from the ones issued by the IASB have not been announced by TASB as of the date of preparation of these consolidated financial statements, the consolidated financial statements have been prepared within the framework of Communiqué XI, No: 29 and related promulgations to this Communiqué as issued by the CMB in accordance with the accounting and reporting principles accepted by the CMB ("CMB Financial Reporting Standards") which are based on IAS/IFRS. The consolidated financial statements and the related notes to them are presented in accordance with the formats required at the announcements of CMB those announced at 14 April 2008, 9 January 2009 and 25 October 2010.

The Company maintains its books of account in accordance with the Turkish Commercial Code ("TCC"), tax legislation and the Uniform Chart of Accounts issued by the Ministry of Finance. The consolidated financial statements are based on the statutory records, which are maintained under historical cost conversion, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with the CMB Financial Reporting Standards.

The consolidated financial statements have been prepared in Turkish lira (“TL”) which is the currency of the primary economic environment in which the Group operates (“functional currency”) based on the historical cost conversion except for the financial assets and liabilities which are expressed at their fair values. The Group’s financial statements are presented in TL; the Group’s functional currency.

With a resolution passed on 17 March 2005, CMB has announced that inflation accounting will not apply for those companies operating in Turkey and that have drawn up the financial statements in accordance with CMB Accounting Standards as of 1 January 2005. Therefore, effective as of 1 January 2005, the standard number 29 “Financial Reporting in the Economies with High Inflation” (IAS 29) published by IASB have not been implemented.

The Group prepared consolidated financial statements in accordance with the going concern assumption.

2.2 Consolidation

Subsidiaries are companies over which the Company has power to control the financial and operating policies for the benefit of Kartonsan either (a) through the power to exercise more than 50% of the voting rights relating to shares in the companies owned directly and indirectly by itself; or (b) although not having the power to exercise more than 50% of the voting rights, otherwise by having the power to exercise control over the financial and operating policies.

Joint ventures are entities to undertake economic activities which are subject to joint control under a contractual arrangement between the Company and one or more other ventures. Joint ventures are consolidated by way of proportionate consolidation method whereby, the Group’s share of the assets, liabilities, income and expenses of the joint venture is combined line by line with similar items in the Group’s financial statements.

The balance sheets and statements of income of the subsidiaries are consolidated by way of full consolidation method whereas the balance sheets and statements of income of the joint ventures are consolidated by way of proportionate consolidation method. The carrying value of the investments held by Group and its subsidiaries and joint ventures are eliminated against the related equity. Intercompany transactions and balances between the Group and its subsidiaries and joint ventures are eliminated on consolidation.

The non-controlling interest shares in the net assets and operating results of subsidiaries are separately classified in the consolidated balance sheets and statements of income as “Non-controlling Interest”.

On Nominal TL

	Dönkasan		**Selka**	
	Ownership (%)	**Registered TL**	**Ownership (%)**	**Registered TL**
Kartonsan	50.00	74,999	99.27	1,240,838
Selka	-	1	-	-
Other	50.00	75,000	0.73	9,162
Total Equity	**100.00**	**150,000**	**100.00**	**1,250,000**

2.3 Comparatives and restatement of prior periods’ financial statements

In order to allow for the determination of the financial situation and performance trends, the Group’s consolidated financial statements have been presented comparatively with the previous year. When the presentation and classification of the consolidated financial statements change, the comparative financial information is reclassified to enable conformity with the presentation of the current period financial statements.

2.4 Changes in accounting policies

Accounting policies are changed if is required or results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the Group's financial position, financial performance or cash flows. If a change in accounting policies has impact on prior periods, such policy change is applied retrospectively in the financial statements as if the new accounting policy had always been applied. There are no changes in accounting policies in the current period.

2.5 Changes in accounting estimates and errors

Accounting estimates are made based on reliable information and appropriate estimation methods. However, the estimates are revised if changes occur in the circumstances on which the estimate was based, new information becomes available or there are new developments. The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only; or the period of the change and future periods, if the change affects both.

The nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect is disclosed in notes to the financial statements.

The Group uses accounting estimates in determination of doubtful receivables, impairment on inventories and property, plant and equipment and intangible assets, useful lives of property, plant and equipment and intangible assets, whether to provide for the litigations against the Group and actuarial assumptions used in the calculation of provision for employment termination benefits.
The Group did not make changes in accounting estimates in the current period. The accounting estimates applied by the Group are disclosed below in the relevant notes. The Group utilizes past experience in making accounting estimations.

2.6 New and revised International Financial Reporting Standards

a) New standards, amendments and interpretations which are effective from 1 January 2012

- IFRS 7 (amendment), "Financial Instruments: Disclosures on Transfers of Assets", is effective for annual periods beginning on or after 1 July 2011. This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position.
- IFRS 1 (amendment), "First-time Adoption of IFRS", is effective for annual periods beginning on or after 1 July 2011. The amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.
- IAS 12 (amendment), "Income Taxes" is effective for annual periods beginning on or after 1 January 2012. This amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value.

b) Standards and amendments which have been issued but are not yet effective

- IAS 19 (amendment), "Employee Benefits", is effective for annual periods beginning on or after 1 January 2013. These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. Early adoption is permitted.
- IAS 1 (amendment), "Presentation of Financial Statements, Other Comprehensive Income", is effective for annual periods beginning on or after 1 July 2012. The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently. The amendments do not address which items are presented in other comprehensive income. Early adoption is permitted.
- IFRS 9, "Financial Instruments", is effective for annual periods beginning on and after 1 January 2015. This standard is the first step in changing IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 addresses new requirements in measurement and classification of financial instruments.
- IFRS 10, "Consolidated Financial Statements", is effective for annual periods beginning on or after 1 January 2013. The standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the

determination of control where this is difficult to assess. This new standard might impact the entities that a group consolidates as its subsidiaries.

- IFRS 11, "Joint Arrangements", is effective for annual periods beginning on or after 1 January 2013. IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. With this standard, proportional consolidation of joint ventures is no longer allowed.

According to the current IAS 31 "Interest in Joint Ventures" standard, entities preparing consolidated financial statements may apply proportionate consolidation method or equity method in accounting of their joint ventures. The Group has applied the current IAS 31 standard in its consolidated financial statements as at 31 December 2012. In this context, had the Group accounted for its joint venture by applying the equity method; the Group's consolidated assets, consolidated liabilities and consolidated sales would have been decreased significantly when compared with current reported amounts due to the change in consolidation method. On the other hand, equity attributable to the equity holders of the parent and net income for the period attributable to equity holders of the parent would have been remained the same. Detailed amounts of joint ventures included in the consolidated financial statements are presented in Note 4.

- IFRS 12, "Disclosures of Interests in Other Entities", is effective for annual periods beginning on or after 1 January 2013. The standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.
- IFRS 10, 11 and 12 on transition guidance (amendment), is effective for annual periods beginning on or after 1 January 2012. The amendment also provide additional transition relief in IFRSs 10, 11 and 12, limiting the 3 requirement to provide adjusted comparative information to only the preceding comparative period. For disclosure related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for the periods before IFRS 12 is applied.
- IFRS 13, "Fair Value Measurement", is effective for annual periods beginning on or after 1 January 2013. The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.
- IAS 27 (revised), "Separate Financial Statements", is effective for annual periods beginning on or after 1 January 2013. The standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
- IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine".
- IAS 28 (revised), "Associates and Joint Ventures", is effective for annual periods beginning on or after 1 January 2013. The standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.
- IFRS 7 (amendment), "Financial Instruments: Disclosures", is effective for annual periods beginning on or after 1 January 2013. The amendment intends to facilitate comparison between those entities that prepare IFRS financial statements and those that prepare US GAAP financial statements.
- IAS 32 (amendment), "Financial Instruments: Presentation", is effective for annual periods beginning on or after 1 January 2014. The amendment updates the application guidance in IAS 32, "Financial instruments: Presentation", to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.
- IFRS 1 (amendment), "First time Adoption", is effective for annual periods beginning on or after 1 January 2013. The amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS.
- IFRS 10, (amendment) "Consolidated Financial Statements", IFRS 12 and IAS 27 "Investments in Associates" is effective for annual periods beginning on or after 1 January 2014. These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an "investment entity" definition. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make.
- Annual Improvements to IFRSs 2011 is effective for annual periods beginning on or after 1 January 2013. Amendments effect five standards: IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34.

2.7 Offsetting

Financial assets and liabilities are offset and reported in the net amount when there is a legally enforceable right or when there is an intention to settle the assets and liabilities on a net basis or realise the assets and settle the liabilities simultaneously.

2.8 Summary of significant accounting policies

Significant accounting policies applied in the preparation of financial statements are summarised below:

2.8.1 Revenue recognition

Revenues are recognised on an accrual basis at the fair values incurred or to be incurred when the amount of revenue can be reliably measured and it is probable that the future economic benefits associated with the transaction will flow to the Group. Net sales represent the invoiced value of goods sold less sales returns and discounts.

The Group's sales of goods are coated cardboard and scrap paper sales and the revenues from sale of goods are accounted for when the following criteria are met:

- The Group transfers to the buyer the significant risks and rewards of ownership of the goods,
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold,
- The amount of revenue can be measured reliably,
- It is probable that the economic benefits associated with the transaction will flow to the entity,
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group's service revenues consist of revenues from roll-stoning. The Group sells electricity under its auto producer license. The revenues from rendering services are recognized when the amount of revenue can be measured reliably by reference to the stage of completion of the transaction. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

Interest income is recognised on a time-proportion basis using the effective interest rate method which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Rental income from investment properties is recognized on a straight-line basis over the term of the respective lease.

When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised in the period on an accrual basis.

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

2.8.2 Inventories

The Group raw material inventories mainly comprise of chemical materials, operating supplies and scrap paper, while finished goods comprise of coated cardboard ready for sale.

Inventories are valued at the lower of cost or net realisable value. The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods.

The costs of inventories are determined on monthly moving weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.8.3 Property, plant and equipment

Property, plant and equipment are stated in the consolidated financial statements at their acquisition costs less accumulated depreciation and any impairment losses if exists; acquisition cost being the restated cost to the equivalent purchasing power of 31 December 2004 for the property, plant and equipment acquired prior to 1 January 2005 and the historical cost for the property, plant and equipment acquired subsequent to 1 January 2005.

Depreciation is calculated using the straight-line method to reduce the cost of each item to its residual value over their useful lives taking into consideration the following rates:

Type	2012 Rate (%)	2011 Rate (%)
Buildings	2 - 2.5	2 - 2.5
Leasehold Improvements	4 - 6.67	4 - 6.67
Plant, Machinery and Equipment	6.67- 25	6.67- 25
Furniture and Fixtures	20 - 25	20 - 25
Vehicles	20 - 25	20-25

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within operating profit.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. If repairs and maintenance clearly improves an item of property, plant and equipment, they are recognized in the carrying amount of that item.

2.8.4 Intangible Assets

The Group's intangible assets comprise of acquired computer software. Intangible assets are stated at their acquisition costs less accumulated amortization and any impairment losses if exists; acquisition cost being the restated cost to the equivalent purchasing power of 31 December 2004 for the intangible assets acquired prior to 1 January 2005 and the historical cost for intangible assets acquired subsequent to 1 January 2005. Intangible assets are amortized over their estimated useful lives using the straight-line method. The amortization rates are between 33% and 20%. The estimated useful lives and amortization method are reviewed annually for the possible effects of any changes in estimates and changes in estimates are accounted for prospectively.

2.8.5 Impairment of Assets

At each reporting date, the Group assesses whether there is any indication that a depreciable asset may be impaired. If any such indication exists, the recoverable amount of such asset is estimated. Impairment exists if the carrying value of an asset or a cash generating unit is greater than its recoverable amount which is the higher of value in use or fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. An impairment loss is recognized immediately in profit or loss. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or group of assets.

An impairment loss recognized in prior period for an asset is reversed if the subsequent increase in the asset’s recoverable amount is caused by a specific event since the last impairment loss was recognized. Such a reversal amount cannot be higher than the previously recognized impairment loss and shall not exceed the carrying amount that would have been determined, net of amortization or depreciation, had no impairment loss been recognized for the asset in prior years. Such a reversal is recognized as income in the consolidated financial statements.

No indicators of impairment exist in the current and prior period.

2.8.6 Leases

The Group does not have finance leases. The Group has real estate rental transactions as a lessee and lessor under operating leases.

Group as a lessee:

Operating lease

An operating lease is a lease that lessor does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term. The Group’s most important operating lease is for its headquarters. The rent expense relating to the headquarters amounting to TL372,000 (2011: TL336,000) is accounted for under operating expenses.

The Group as lessor:

Operating lease

The Group presents assets subject to operating leases in the balance sheet according to the nature of the asset. Lease income from operating leases is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred by lessors to earn lease income are included as expense in the statement of income in the period they are incurred. The Group does not have a material operating lease contract as lessor.

2.8.7 Financial assets

Classification

The group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. The group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the balance sheet.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the management intends to dispose of it within 12 months of the end of the reporting period.

Recognition and measurement

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for- sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within "other (losses)/gains in the period in which they arise.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "gains and losses from investment securities".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired except for financial assets at fair value through profit or loss. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

2.8.8 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less which does not entertain significant value change.

2.8.9 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed. If collection is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.8.10 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred. There are not any capitalized borrowing costs in the current period.

2.8.11 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.8.12 Foreign currency transactions

Foreign currency transactions are translated into Turkish lira using the exchange rates prevailing at the dates of the transactions during the year. Monetary assets and liabilities denominated in foreign currencies have been translated into Turkish lira at the exchange rates prevailing at the balance sheet dates. Exchange gains or losses arising from the settlement and translation of foreign currency items have been included in the statement of income.

2.8.13 Earnings per share

Earnings per share are calculated by dividing the profit by the weighted average number of ordinary shares in issue during the year.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“bonus shares”) to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued by giving them retroactive effect for the year in which they were issued and for each earlier year.

2.8.14 Subsequent events

Subsequent events are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorised for issue. When there is new evidence that such events existed at the balance sheet date or such events arose after the balance sheet date, the Group discloses such events in the notes financial statements.

The Group adjusts the amounts recognized in the financial statements to reflect the adjusting events after the balance sheet date.

2.8.15 Provisions, contingent liabilities and contingent assets

The Group provides for its obligations in the financial statements when it is a present obligation from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits and a reliable estimate can be made of the amount of the obligation. Contingent liabilities are assessed to determine whether it become probable that an outflow of resources embodying economic benefits will be required. If it became probable that an outflow of resources embodying economic benefits will be required to settle the contingent liabilities, such contingent liabilities are provided for in the financial statements in the period when the probability changed except for the cases where the amount of the obligation cannot be measured with sufficient reliability.

The Group discloses the contingent liabilities in the notes to the financial statements when an outflow of resources embodying economics become probable but the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises 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 entity. A contingent asset is disclosed in the notes where an inflow of economic benefits is highly probable.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, it is virtually certain that reimbursement will be received and the amount of the reimbursement is calculated reliably. The reimbursement shall be treated as a separate asset.

2.8.16 Related parties

For the purpose of these financial statements, shareholders, key management personnel and Board members, their families and companies controlled by/or affiliated with them, affiliates and joint ventures are considered and referred to as related parties. The balances and transactions with related parties are disclosed in Note 27.

2.8.17 Government grants and assistance

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received. Government grants are recognised in profit or loss over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Income from government grants are accounted for as a reduction to related expenses (Note 14).

2.8.18 Income taxes

Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, tax liabilities, as reflected in these consolidated financial statements, have been calculated on a separate-entity basis.

The tax expense for the period comprises current income tax expense and deferred tax expense (or deferred tax income).

Current income tax

Current income tax charge is calculated on the taxable income for the period. Taxable income excludes income which is taxable or expenses which are deductible in other years and permanently non-deductible or non-taxable item, therefore it differs from the reported income in the statement of comprehensive income. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

Deferred income tax

Deferred income tax liabilities or assets are recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred income tax liabilities are recognized for all taxable temporary differences, whereas deferred income tax assets resulting from deductible temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised. Deferred income tax liabilities and assets are not recognised on temporary differences if they arise from the initial recognition of an asset or liability that does not affect either accounting nor taxable profit or loss except for goodwill and business combinations.

The carrying amount of deferred income tax assets are reviewed at each balance sheet date. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or that entire deferred tax asset to be utilised.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The tax impact of the Group's estimated methods to recover the carrying amounts of its assets or to settle its liabilities are taken into consideration in the calculation of deferred income taxes.

Current and deferred income taxes

Current and deferred taxes are recognised as income or an expense and included in profit or loss, except to the extent that the tax arises from a transaction or event which is recognised directly in equity (in such case deferred income tax relating to the transaction or event is also recognized in equity) or initial recognition of a business combination. Tax effects in the business combinations, goodwill determination and the determination of excess of purchase consideration over the acquirer's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities are taken into consideration.

Taxes in the financial statements include the changes in the current and deferred income taxes. The Group calculates current and deferred income taxes on the current period results.

Offsetting income tax assets and liabilities

The current income taxes payable are netted off with relating prepaid current income taxes in the balance sheet. Deferred income tax assets and liabilities are also netted off.

2.8.19 Retirement and employment termination benefits

In accordance with Turkish Labor Law, employment termination benefits are provided in the financial statements when the termination indemnities become eligible. In accordance with revised IAS 19 "Employee Benefits", such payments are classified as defined retirement plans.

The provision for employment termination benefits in the consolidated financial statements is the present value of the future liability which will be paid for the retired personnel calculated using a discount rate adjusted for the inflation. The interest cost associated with the provision for employment termination benefits is accounted for as part of the employment termination expenses in the current period results.

2.8.20 Cash flow statement

Cash and cash equivalents are carried at cost in the balance sheet. For the purposes of cash flow statement, cash and cash equivalents include cash in hand, bank deposits and highly liquid investments. In the cash flow statement, cash flows for the period are presented under operating, investing and financing activities.

2.8.21 Investment properties

The Group's investment properties comprise of land.

Investment properties are properties held to earn rentals or for capital and are carried at their cost values in the financial statements.

Investment properties are eliminated from the balance sheet on disposal or when the investment property is permanently withdrawn from use. Gains or losses arising from disposal of investment properties are recognised in the profit or loss.

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

2.8.22 Equity and dividends

Ordinary shares are classified as equity. Dividends payable are recognized as an appropriation of profit in the period in which they are declared.

2.8.23 Convenience translation into English of consolidated financial statements originally issued in Turkish

The financial reporting standards issued by the CMB as described in Note 2.1 to these consolidated financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting for the period between 1 January - 31 December 2005. Accordingly, these consolidated financial statements are not intended to present the consolidated financial position, consolidated financial performance and consolidated cash flows of the Group in accordance with IFRS.

NOTE 3 - BUSINESS COMBINATIONS

Business combinations are undertakings or businesses combined to establish a single reporting entity. The Group does not have a transaction that should be considered as a business combination in the current period.

NOTE 4 - JOINT VENTURES

The summary of financial information before consolidation adjustments, relating to the assets, liabilities and net income of Dönkasan accounted for by way of proportionate consolidation is as follows:

	2012	2011
Current Assets	18,745,377	18,144,009
Non-Current Assets	5,007,896	5,283,226
Total Assets	**23,753,273**	**23,427,235**

	2012	2011
Current Liabilities	3,352,256	3,130,389
Non-Current Liabilities	1,215,081	1,023,254
Equity	19,185,936	19,273,592
Total Liabilities and Equity	**23,753,273**	**23,427,235**

	2012	2011
Gross Profit	715,312	1,667,372
Operating (Loss) / Profit (Net)	(733,937)	1,301,538
(Loss) / Income for the Period (Net)	(87,656)	1,784,553

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

NOTE 5 - SEGMENT REPORTING

The principal activity of the Group which is established in Turkey is production and trade of coated cardboard. The Group's principal activities, the nature and economic characteristics of the products, production processes, risk-based classification of customers and methods used to distribute products are similar. Furthermore, the Group's structure has been established to manage one business activity rather than managing different business activities under separate segments. Therefore, the business activities of the Group are considered as one operating segment and Group's operating results, determination of funds to be allocated to these operations and assessment of the performance of operations are evaluated within this context.

NOTE 6 - CASH AND CASH EQUIVALENTS

The Group's Cash and Cash Equivalents at the end of reporting periods are as follows:

	2012	2011
Cash in Hand	47,809	48,647
Due from Banks	82,143,982	60,299,749
- Time Deposits	*81,561,445*	*59,797,828*
- Demand Deposits	*582,537*	*501,921*
Receivables from Reverse Repurchase Agreements	175,000	585,225
Credit Card Receivables (*)	2,654,420	2,692,411
Total	**85,021,211**	**63,626,032**

(*) Average maturity is 15 days.

Maturity analysis of due from banks is as follows:

	2012	2011
At call	582,537	501,921
1-30 days	81,561,445	59,797,828
Total	**82,143,982**	**60,299,749**

The effective interest rates of time deposits per the denominated currencies are as follows:

	2012		2011	
Currency Type	**Amount**	**Weighted Avg. Interest Rate %**	**Amount**	**Weighted Avg. Interest Rate %**
Turkish Lira ("TL")	32,343,419	8.00	42,857,000	11.64
American Dollar ("USD")	4,600,500	3.19	2,758,000	4.94
Euro ("EUR")	17,741,500	3.20	4,708,000	4.79

Cash and cash equivalents in the cash flow statement is presented net-off the interest income accrual;

	2012	2011
Cash and Cash Equivalents	85,021,211	63,626,032
Interest Income Accrual (-)	(207,171)	(225,480)
Cash Flow Statement	**84,814,040**	**63,400,552**

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

NOTE 7 - FINANCIAL LIABILITIES

Short Term Financial Liabilities of the Group at the end of reporting periods are as follows:

	2012	2011
Bank Loans	363,539	62,557
Total	**363,539**	**62,557**

Maturities of Financial Liabilities are as follows:

	2012	2011
0-3 months	363,539	62,557
Total	**363,539**	**62,557**

The Group's bank loans comprise of interest-free TL spot loans obtained for payment of tax and Social Security Institution ("SSI") premiums.

NOTE 8 - TRADE RECEIVABLES AND PAYABLES

Short-Term Trade Receivables of the Group at the end of the reporting periods are as follows:

	2012	2011
Trade Receivables	26,715,798	25,618,979
Notes Receivables	1,897,418	1,086,572
Due from Related Parties (Note 27)	222,193	-
Unearned Finance Income from Sales on Credit Terms (-)	(212,160)	(269,593)
Provision for Doubtful Receivables (-)	(766,080)	(664,926)
Total	**27,857,169**	**25,771,032**

Movements in provision for doubtful receivables:

	2012	2011
1 January	**664,926**	**816,670**
Collections within the period (-)	(410)	(244,731)
Charge for the period (Note 22)	101,564	92,987
31 December	**766,080**	**664,926**

The details of the mortgages and guarantees obtained for receivables are as follows:

	2012				2011			
Type	**TL**	**USD**	**EURO**	**GBP**	**TL**	**USD**	**EURO**	**GBP**
Guarantee Notes	50,000	-	-		-	-	-	-
Bank Guarantees	420,000	-	-	-	1,120,000	-	-	-
Eximbank Guarantee	-	1,082,538	11,505,000	-	-	1,575,000	11,740,000	150,000
Letters of Guarantee	16,093,000	1,000,000	60,000	-	14,594,000	6,000	69,000	-
Total	**16,563,000**	**2,082,538**	**11,565,000**	**-**	**15,714,000**	**1,581,000**	**11,809,000**	**150,000**

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

Information relating to the nature and level of risks in trade receivables are disclosed in Note 28.

Short-Term Trade Payables of the Group at the end of the reporting periods are as follows:

	2012	2011
Trade Payables	11,145,261	11,280,457
Due to Related Parties (Note 27)	5,128,794	4,150,509
Unincurred Finance Expense from Purchases on Credit Terms (-)	(174,038)	(214,483)
Total	**16,100,017**	**15,216,483**

The average maturity dates for trade receivables is 30 days and for trade payables it is 40 days. The average interest rates used in the discount of trade receivables and payables are; 8% for TL denominated receivables and payables, 0.4281%, for the USD denominated receivables and payables, 1.10286% for the EUR denominated receivables and payables (2011: TL 11%, USD 0,4281%, EUR 1.10286%).

NOTE 9 - OTHER RECEIVABLES AND PAYABLES

Other Short-Term Receivables of the Group at the end of the reporting periods are as follows:

	2012	2011
VAT Receivables from Tax Office	2,339,080	-
Receivables from Personnel	10,150	105,705
Deposits and Guarantees Given	238	1,879
Other	16,475	10,462
Total	**2,365,943**	**118,046**

Other Long-Term Receivables of the Group at the end of the reporting periods are as follows:

	2012	2011
Deposits and Guarantees Given	6,447	6,447
Total	**6,447**	**6,447**

Information relating to the nature and level of risks in other receivables are disclosed in Note 28.

Other Short-Term Payables of the Group at the end of the reporting periods are as follows:

	2012	2011
Taxes, Dues and Fees Payable	1,818,603	1,732,543
Payables to Personnel	245,038	454,775
SSI Premiums Payable	310,283	554,615
Due to Related Parties (Note 27)	208,179	194,709
Order Advances Received	355,222	184,305
Other Miscellaneous Payables	11,572	14,639
Total	**2,948,897**	**3,135,586**

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

NOTE 10 - INVENTORIES

Inventories of the Group at the end of the reporting periods are as follows:

	2012	2011
Raw Materials and Supplies	15,781,585	17,147,408
Work-in-Process	204,961	284,573
Finished Goods	35,335,735	29,281,497
Trade Goods	1,405,414	3,464,384
Goods in Transit	-	116,568
Provision for impairment on inventories (-)	(67,946)	(5,947)
Total	**52,659,749**	**50,288,483**

Movements in provision for impairment on inventories:

	2012	2011
1 January	**5,947**	**4,413**
Realised due to sale of inventory	(5,947)	(4,413)
Current period provisions (-)	67,946	5,947
31 December	**67,946**	**5,947**

The table relating to the cost, net realizable value and the provision of the impaired inventories is as follows:

	2012	2011
Cost	632,327	53,254
Net Realizable Value	564,381	47,307
Provision	67,946	5,947

As of 31 December 2012, inventories amounting to TL564,381 were stated at their net realizable value and the remaining inventories are stated at their cost in the financial statements. As of 31 December 2011, inventories amounting to TL47,307 were stated at their net realizable value and the remaining inventories are stated at their cost in the financial statements.

There are no inventories pledged as security for the liabilities.

The cost of inventories recognized as expense within the period is disclosed in Note 19.

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

NOTE 11 - INVESTMENT PROPERTIES

Carrying Amount	1 January 2012	Additions	Disposals/Transfers	31 December 2012
Land	229,270	-	-	229,270
Total	**229,270**	**-**	**-**	**229,270**

Carrying Amount	1 January 2011	Additions	Disposals/Transfers	31 December 2011
Land	229,270	-	-	229,270
Total	**229,270**	**-**	**-**	**229,270**

Investment properties are carried at cost in the financial statements. The fair value of the investment properties is TL249,000. The fair values of the investment properties were estimated by the Group management taking into consideration the values determined in the appraisal report dated 22 February 2008 prepared by TSKB Gayrimenkul Değerleme A.Ş., which is licensed by CMB. The fair value determined by TSKB Gayrimenkul Değerleme A.Ş. is TL249,000 and the Group management is in the opinion that there are no changes in the fair value of the investment properties since 22 February 2008.

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT

The property, plant and equipment of the Group at the end of the reporting periods are as follows:

31 December 2012

Cost	Land	Land Improvements	Buildings	Plant, Machinery and Equipment	Vehicles	Furniture and Fixtures	Leasehold Improvements	Other Tangible Assets	Construction in Progress	Total
Opening Balance 1 January 2012	**5,109,298**	**5,153,183**	**44,028,140**	**330,999,166**	**1,878,582**	**10,114,602**	**186,764**	**9,285**	**3,512,369**	**400,991,389**
Additions	-	117,200	156,962	971,364	54,999	156,300	116,175	-	5,504,065	7,077,065
Transfers	-	526,510	376,747	3,818,258	-	619,941	-	-	(5,341,456)	-
Disposals	-	-	-	(554,952)	(263,452)	(81,891)	-	-	-	(900,295)
Closing Balance 31 December 2012	**5,109,298**	**5,796,893**	**44,561,849**	**335,233,836**	**1,670,129**	**10,808,952**	**302,939**	**9,285**	**3,674,978**	**407,168,159**

Accumulated Depreciation	Land	Land Improvements	Buildings	Plant, Machinery and Equipment	Vehicles	Furniture and Fixtures	Leasehold Improvements	Other Tangible Assets	Construction in Progress	Total
Opening Balance 1 January 2012	**-**	**4,397,682**	**19,854,290**	**283,990,344**	**1,498,680**	**8,858,575**	**149,043**	**9,285**	**-**	**318,757,899**
Depreciation charge for the period	-	110,091	892,498	10,009,712	119,886	332,928	32,378	-	-	11,497,493
Disposals	-	-	-	(533,905)	(204,554)	(75,854)	-	-	-	(814,313)
31 December 2012	**-**	**4,507,773**	**20,746,788**	**293,466,151**	**1,414,012**	**9,115,649**	**181,421**	**9,285**	**-**	**329,441,079**
1 January 2012 Net Book Value	**5,109,298**	**755,501**	**24,173,850**	**47,008,822**	**379,902**	**1,256,027**	**37,721**	**-**	**3,512,369**	**82,233,490**
31 December 2012 Net Book Value	**5,109,298**	**1,289,120**	**23,815,061**	**41,767,685**	**256,117**	**1,693,303**	**121,518**	**-**	**3,674,978**	**77,727,080**

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

31 December 2011

Cost	Land	Land Improvements	Buildings	Plant, Machinery and Equipment	Vehicles	Furniture and Fixtures	Leasehold Improvements	Other Tangible Assets	Construction in Progress	Total
Opening Balance 1 January 2011	**5,109,298**	**5,116,871**	**43,810,487**	**329,389,631**	**1,967,347**	**9,805,401**	**236,764**	**9,285**	**371,211**	**395,816,295**
Additions	-	36,312	217,653	1,040,836	144,854	363,807	-	-	4,479,347	6,282,809
Transfers	-	-	-	1,338,189	-	-	-	-	(1,338,189)	-
Disposals	-	-	-	(769,490)	(233,619)	(54,606)	(50,000)	-	-	(1,107,715)
Closing Balance 31 December 2011	**5,109,298**	**5,153,183**	**44,028,140**	**330,999,166**	**1,878,582**	**10,114,602**	**186,764**	**9,285**	**3,512,369**	**400,991,389**

Accumulated Depreciation	Land	Land Improvements	Buildings	Plant, Machinery and Equipment	Vehicles	Furniture and Fixtures	Leasehold Improvements	Other Tangible Assets	Construction in Progress	Total
Opening Balance 1 January 2011	**-**	**4,255,238**	**18,974,033**	**274,763,797**	**1,563,873**	**8,626,051**	**164,131**	**9,285**	**-**	**308,356,408**
Depreciation charge for the period	-	142,444	880,257	9,402,559	163,091	283,809	18,246	-	-	10,890,406
Disposals	-	-	-	(176,012)	(228,284)	(51,285)	(33,334)	-	-	(488,915)
31 December 2011	**-**	**4,397,682**	**19,854,290**	**283,990,344**	**1,498,680**	**8,858,575**	**149,043**	**9,285**	**-**	**318,757,899**
1 January 2011 Net Book Value	**5,109,298**	**861,633**	**24,836,454**	**54,625,834**	**403,474**	**1,179,350**	**72,633**	**-**	**371,211**	**87,459,887**
31 December 2011 Net Book Value	**5,109,298**	**755,501**	**24,173,850**	**47,008,822**	**379,902**	**1,256,027**	**37,721**	**-**	**3,512,369**	**82,233,490**

Other Information:

- Allocation of the depreciation expense to the profit and loss accounts is disclosed in Note 21.
- There are no restrictions on the assets like mortgages, pledges, etc.

NOTE 13 - INTANGIBLE ASSETS

31 December 2012	Rights
Cost	
Opening balance 1 January 2012	**1,108,880**
Additions	162,669
Closing Balance 31 December 2012	**1,271,549**
Accumulated Amortization	
Opening balance 1 January 2012	**1,046,292**
Amortization charge for the period	36,370
Closing Balance 31 December 2012	**1,082,662**
1 January 2012 Net Book Value	**62,588**
31 December 2012 Net Book Value	**188,887**

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

Allocation of amortization expense to profit and loss accounts is disclosed in Note 21.

31 December 2011	Rights
Cost	
Opening balance 1 January 2011	**1,070,333**
Additions	38,547
Closing Balance 31 December 2011	**1,108,880**
Accumulated Amortization	
Opening balance 1 January 2011	**1,000,879**
Amortization charge for the period	45,413
Closing Balance 31 December 2011	**1,046,292**
1 January 2011 Net Book Value	**69,454**
31 December 2011 Net Book Value	**62,588**

NOTE 14 - GOVERNMENT GRANTS AND ASSISTANCE

The Group does not benefit from any investment incentive certificates.

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

i) Provisions

Short Term	2012	2011
Provision for Commissions	371,809	289,590
Provision for Personnel Wages and Salaries	271,258	86,403
Provisions for Other Payables and Debts	564,269	210,094
Provision for Personnel Litigations	-	109,531
Total	**1,207,336**	**695,618**

	Provision for Litigations	Other Provisions	Total
1 January 2012	**109,531**	**586,087**	**695,618**
Additional provisions	-	1,207,336	1,207,336
Released provisions	(109,531)	-	(109,531)
Payments	-	(586,087)	(586,087)
31 December 2012	-	**1,207,336**	**1,207,336**

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

	Provision for Litigations	Other Provisions	Total
1 January 2011	**91,075**	**702,886**	**793,961**
Additional provisions	18,456	586,087	604,543
Payments	-	(702,886)	(702,886)
31 December 2011	**109,531**	**586,087**	**695,618**

ii) Contingent Assets and Liabilities;

31 December 2012

As per the letters obtained from the lawyers authorized to represent the Group court cases on trial against or in favor of the Group as of 31 December 2012 are as follows:

1. The Group filed a lawsuit against Istanbul Metropolitan Municipality and Küçükçekmece Municipality on Istanbul 9th Administrative Court with file number 2008/1503 for the cancellation of the implementation of the Zoning Law Article 18 in the area where the Group’s immovable at Küçükçekmece County Sefaköy District is located and its basis, the Execution Zoning Plan scaled 1/1000 approved on 22 September 2005 and Istanbul Sefaköy Master Zoning Plan scaled 1/5000 dated 18 August 2004. With court decision numbered 2010/957 at 24 September 2010, the implementation, the subject of the litigation, was cancelled for the plaintiff’s parcel, subject to being open to appeal. Küçükçekmece Municipality, one of the defendants, appealed the decision and the case is currently at Council of State. The Group management is in the opinion that the decision by the Istanbul 9th Administrative Court will be approved by the Council of State.

2. The Group filed a lawsuit against Istanbul Metropolitan Municipality on Istanbul 4th Administrative Court with file number 2012/2331 for the cancellation of the implementation of the Zoning Law Article 18 in the area where the Group’s immovable at Küçükçekmece County Sefaköy district is located and its basis, the Execution Zoning Plan around Küçükçekmece County Halkalı District scaled 1/5000 dated 16 August 2012. The lawsuit is still in progress. As per the assessments made, the Group does not anticipate any cash outflows relating to this lawsuit and hence did not provide provision in the financial statements.

3. The Governorship of Kocaeli filed a lawsuit on Kocaeli 4th Civil Court of First Instance with file number 2010/419 E, with the claim of TL2,500,000 as rehabilitation compensation. In accordance with the Group’s objections, the lawsuit was dismissed on the ground that the Governorship of Kocaeli is not eligible to file a lawsuit relating to village pasture on 1 February 2011. However, Turkish Treasury filed a lawsuit on Kocaeli 4th Civil Court of First Instance with file number 2011/13 E. with the claim of TL2,500,000 as rehabilitation compensation. This lawsuit is still in progress. As per the assessments made, the Group does not anticipate any cash outflows relating to this lawsuit and hence did not provide provision in the financial statements. The Group management also considered expert opinions in its assessments.

4. The Group filed a lawsuit on Istanbul 1st Tax Court with file numbers 2010/4108 E. and 2010/2187 E. for the cancellation of the payment orders amounting to TL730,411 notified by Boğaziçi Kurumlar Tax Office relating to the VAT periods 3,5,6,7,8,9,10 and 11th in 2005 and 3,5,6,7,8 and 11th in 2006. The subject of these payment orders is the Group’s deferred VAT amounts on its sales under VAT Law Provisional Article 17 in 2005 and 2006. The court with file number 2010/4108 E was concluded in favour of the Group since payment orders were cancelled by the related Tax Office. The court with file number 2010/2187 E. was concluded in favour of the Group and since the defendant appealed the decision, the case is currently at Supreme Court.

5. As a result of the tax inspection by Ministry of Finance related to 1 January-31 December 2007 fiscal period, tax and penalty assessments in the total amount of TL14,928,436, which comprises of original corporate income tax amounting to TL4,165,805 and tax penalty amounting to TL10,762,631 was notified to the Group. The subject of this tax and tax penalty is the accounting applications relating the merger of Kartonsan and its subsidiary Selka Holding A.Ş. in the related year.

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

Group Management is in the opinion that accounting applications that were criticized in Tax Inspection Reports are compliant with the legal arrangements and communiqué, circular and tax ruling of Ministry of Finance. Nonetheless, the Group plans to use its legal rights against the claims in the Tax Inspection Report. The Group did not provide provision in the consolidated financial statements since no reliable estimation could be made related to the cash outflows from the Group with respect to these tax inspections at the current stage.

31 December 2011

As per the letters obtained from the lawyers authorized to represent the Group court cases on trial against or in favor of the Group as of 31 December 2011 are as follows:

1. The Group filed a lawsuit against Istanbul Metropolitan Municipality and Küçükçekmece Municipality on Istanbul 9th Administrative Court with file number 2008/1503 for the cancellation of the implementation of the Zoning Law Article 18 in the area where the Group's immovable at Küçükçekmece County Sefaköy District is located and its basis, the Execution Zoning Plan scaled 1/1000 approved on 22 June 2005 and Istanbul Sefaköy Master Zoning Plan scaled 1/5000 dated 18 August 2004. With court decision numbered 2010/957 at 24 June 2010, the implementation, the subject of the litigation, was cancelled for the plaintiff's parcel, subject to being open to appeal. Küçükçekmece Municipality, one of the defendants, appealed the decision and the case is currently at Council of State. The Group management is in the opinion that the decision by the Istanbul 9th Administrative Court will be approved by the Council of State.

2. The Governorship of Kocaeli filed a lawsuit on Kocaeli 4th Civil Court of First Instance with file number 2010/419 E. with the claim of TL2,500,000 as rehabilitation compensation. In accordance with the Group's objections, the lawsuit was dismissed on the ground that the Governorship of Kocaeli is not eligible to file a lawsuit relating to village pasture on 1 February 2011. However, Turkish Treasury filed a lawsuit on Kocaeli 4th Civil Court of First Instance with file number 2011/13 E. with the claim of TL2,500,000 as rehabilitation compensation. This lawsuit is still in progress. As per the assessments made, the Group does not anticipate any cash outflows relating to this lawsuit and hence did not provide provision in the financial statements. The Group management also considered expert opinions in its assessments.

3. The Group filed a lawsuit on Istanbul 1st Tax Court with file numbers 2010/4108 E. and 2010/2187 E. for the cancellation of the payment orders amounting to TL730,411 notified by Boğaziçi Kurumlar Tax Office relating to the VAT periods 3,5,6,7,8,9,10 and 11th in 2005 and 3,5,6,7,8 and 11th in 2006. The lawsuit is still in progress. The subject of these payment orders is the Group's deferred VAT amounts on its sales under VAT Law Provisional Article 17 in 2005 and 2006. The Group management assesses that the taxes subject to the payment orders are the liabilities of the customers under VAT Communiqué numbered 83 and does not anticipate cash outflows from the Group and hence did not provide provision in the consolidated financial statements.

iii) Commitments not included in liabilities;

As of 31 December 2012, the Group's commitments are as follows:

MORTGAGE/ GUARANTEE	BENEFICIARY	REASON	CURRENCY	MATURITY	AMOUNT
Guarantee Letter	OMV Gaz ve Enerji A.Ş.	Guarantee	TL	No Maturity	6,640,000
Guarantee Letter	Tax Offices	Guarantee	TL	No Maturity	1,192,000
Guarantee Letter	Sakarya Elektrik A.Ş.	Guarantee	TL	No Maturity	896,141
Guarantee Letter	Derince Güm. Müd.	Guarantee	TL	No Maturity	550,000
Guarantee Letter	Various Suppliers	Guarantee	TL	Various Maturities	191,540
Total					**9,469,681**

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

As of 31 December 2011, the Group's commitments are as follows:

MORTGAGE/ GUARANTEE	BENEFICIARY	REASON	CURRENCY	MATURITY	AMOUNT
Guarantee Letter	OMV Gaz ve Enerji A.Ş.	Guarantee	TL	No Maturity	5,080,000
Guarantee Letter	Sakarya Elektrik A.Ş.	Guarantee	TL	No Maturity	841,068
Guarantee Letter	Derince Güm. Müd.	Guarantee	TL	No Maturity	550,000
Guarantee Letter	Various Suppliers	Guarantee	TL	Various Maturities	109,040
Total					**6,580,108**

iv) Total mortgages and guarantees on assets;

There are no mortgages and guarantees on the Group' movable and immovable properties in the current and prior periods.

v) Letters of Credit

The Group's commitments per orders are as follows:

31 December 2012

Type	Beginning Date	Ending Date	Beneficiary	Foreign Currency Amount
Letters of Credit USD	1 January 2013	31 December 2013	Various	152,803
Letters of Credit EUR	1 January 2013	31 December 2013	Various	236,640

31 December 2011

Type	Beginning Date	Ending Date	Beneficiary	Foreign Currency Amount
Letters of Credit USD	1 January 2012	31 December 2012	Various	1,029,561
Letters of Credit EUR	1 January 2012	31 December 2012	Various	397,216
Letters of Credit SFR	1 January 2012	31 December 2012	Various	62,581

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

vi) Ratio of the collaterals, pledges and mortgages to equity

The details of collaterals, pledges and mortgages ("CPM") of the Group at 31 December 2012 and 2011 are as follows:

CPMs given by the Group	**2012**		**2011**	
	Foreign Currency Amount	**TL Equivalent**	**Foreign Currency Amount**	**TL Equivalent**
A. CPM given on behalf of the Company's legal personality	-	9,469,681		6,580,108
Guarantee Letter (USD)	-	-	-	-
Guarantee Letter (TL)	-	9,469,681	-	6,580,108
Guarantee Letter (EUR)	-	-	-	-
Pledge	-	-	-	-
Mortgage	-	-	-	-
B. CPM given on behalf of fully consolidated subsidiaries	-	-	-	-
C. CPM given for continuation of ordinary economic activities on behalf of third parties	-	-	-	-
D. Total amount of other CPM given	-	-	-	-
i. Total amount of CPM given on behalf of the majority shareholder	-	-	-	-
ii. Total amount of CPM given to on behalf of other group companies which are not in scope of B and C	-	-	-	-
iii. Total amount of CPM given on behalf of third parties which are not in scope of C	-	-	-	-
Total		**9,469,681**		**6,580,108**

The ratio of other CPMS given by the Group to equity of the Group is 4% as of 31 December 2012 (2011: 3%).

NOTE 16 - EMPLOYEE BENEFITS

Long Term	**2012**	**2011**
Provision for Employment Termination Benefits	4,226,720	3,713,613
Total	**4,226,720**	**3,713,613**

Under Turkish Labor Law, the Group is required to pay employment termination benefits to the employees whose employment contract is ended entitling the employees to receive termination benefits. Additionally, there is the obligation for payment of termination benefits to the employees who has qualified for a pension when quitting their employment. As of 31 December 2012, termination benefit payable is limited to a maximum of TL3,129.25 (2011: TL2,731.85) per month. The maximum liability of TL3,129.25 which is effective from 1 January 2013 and TL2,805.04 which is effective from 1 January 2011 have been taken into consideration in the calculations of the Group's liability for employment termination benefits as of 31 December 2012 and 31 December 2011, respectively.

There is no legal funding requirement for employment termination benefits liability.

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

Employment termination benefit is calculated as the present value of the total estimated provision for the liabilities of the personnel who may retire in the future, IAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans, Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. In the financial statements as of 31 December 2012, the provision is calculated as the estimated present value of the liabilities of the personnel who may retire in the future. As of 31 December 2012, the provision is calculated using 2.50% real discount rate (2011: 4.50% real discount rate).

As of 31 December 2012, the rate used to estimate the probability of retirement is 97.30% (2011: 97.19%).

	2012	2011
1 January	**3,713,613**	**3,645,798**
Interest Cost	167,113	169,975
Actuarial Loss	353,304	92,705
Payments	(910,094)	(747,359)
Service Cost	902,784	552,494
31 December	**4,226,720**	**3,713,613**

NOTE 17 - OTHER ASSETS AND LIABILITIES

The Group's Other Current Assets at the end of the reporting periods are as follows:

	2012	2011
Order Advances Given	1,176,321	4,388,089
Prepaid Expenses	365,965	434,513
Deferred VAT	76,028	708,893
Advances Given to Personnel	29,369	17,813
Refundable VAT	2,985	365,094
Job Advances	600	1,762
Total	**1,651,268**	**5,916,164**

The Group's Other Non- Current Assets at the end of the reporting periods are as follows:

	2012	2011
Prepaid Expenses	-	184
Order Advances Given for Property, Plant and Equipment and Intangible Assets	601,519	737,678
Total	**601,519**	**737,862**

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

NOTE 18 - EQUITY

i) Capital

Kartonsan's shareholders and their respective shareholding ratios at 31 December 2012 and 2011 are as follows:

	2012		2011	
Shareholders	**Amount**	**Ratio (%)**	**Amount**	**Ratio (%)**
Pak Holding A.Ş.	975,589	34.39	975,589	34.39
Pak Gıda Üretim ve Pazarlama A.Ş.	564,903	19.91	564,903	19.91
Asil Gıda ve Kimya San. ve Tic. A.Ş.	523,524	18.45	523,524	18.45
Oycan İthalat İhracat ve Ticaret A.Ş.	45,300	1.60	68,300	2.41
Other shareholders (Publicly traded portion)	727,698	25.65	704,698	24.84
Capital at historical cost	**2,837,014**	**100.00**	**2,837,014**	**100.00**

The number of shares representing the Group's paid-in capital in accordance with the Extraordinary General Assembly decision on 28 June 2006 which was registered on 5 July 2006 and published in the Trade Registry Gazette dated 10 July 2006 numbered 6595, the capital increase registered on

27 December 2007 and the capital increase due to business combination on 2 October 2007 is as follows:

In Accordance with the Company's Articles of Association

Number of Shares	283,701,421
Nominal Value of Each Share	0.01TL
Total Nominal Amount	**2,837,014.21TL**

200 of the shares representing the capital are Group A (Privileged) shares. Such shares have privileges in dividend distribution. In accordance with Article 25th of the Company's Articles of Association, dividend is distributed to Group A shareholders as 5% of the amount which is the net profit distributable as 1st dividend after 10% of the paid-in capital is deducted.

ii) Capital Reserves

Capital reserves consist of share premiums.

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

iii) Restricted Reserves

Restricted reserves consist of legal reserves and profits from sale of participation shares and real estate sale exemptions that will be added to capital.

In accordance with the Turkish Commercial Code (“TCC”), the legal reserves consist of first and second reserves. 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.

	2012	**2011**
Legal Reserves	21,937,891	21,033,111
Profit on Sale of Participation Shares and Real Estate Sale Exemptions to be Added to Capital	2,315,343	2,315,343
Total	**24,253,234**	**23,348,454**

iv) Retained Earnings

Retained Earnings comprise of Extraordinary Reserves, Inflation Adjustment to Reserves and Other Accumulated Losses.

Public companies distribute dividend in accordance with CMB regulations as follows:

Dividends will be distributed at the total amount calculated in accordance with the minimum dividend distribution requirements of CMB Decree 7/242 dated 25 February 2005 applied to the net distributable profit found in accordance with CMB regulations when such distributable profit is does not exceed the statutory net distributable profit, otherwise the total amount of the statutory net distributable profit shall be distributed. Dividend distributions should not be made if there is a loss in either the financial statements prepared in accordance with CMB regulations or in the statutory financial statements. In accordance with CMB Decree dated 27 January 2010, it was decided not to oblige minimum dividend distribution requirements for the publicly traded entities.

Equity inflation adjustment differences and the carrying amount of extraordinary reserves could have been utilised in issuing bonus shares, cash dividend distribution and offsetting accumulated losses. However, equity inflation adjustment differences are subject to corporate income tax when utilised in cash dividend distribution.

The Group’s profit for the year in its financial statements prepared in accordance with CMB regulations is TL27,061,619. The Group’s distributable profit in 2012 is limited to the statutory distributable profit. The Group’s statutory distributable profit is TL26,938,300. The Group’s distributable retained earnings in its financial statements prepared in accordance with CMB regulations is TL73,770,237. The Group’s distributable retained earnings in its statutory financial statements are TL59,140,586 which is the limit for the Group’s distributable retained earnings. The Group’s distributable profit from both profit for the year and retained earnings amounts to TL86,078,886. During dividend distribution, 10% of the distributed profit will be appropriated as second legal reserve. The Group management has not decided for dividend distribution as of the date of the report. In calculation of the distributable profit, equity inflation adjustment differences and profit on real estate sale exemption that will be added to capital have not been taken into consideration.

In accordance with General Assembly decision held on 2 May 2012, the Group has distributed TL9,152,652 from its profit for the year 2011 in cash on 4 May 2012. The cash dividends distributed to;

1. To common and privileged (Group A) shares with nominal value of TL1; (Gross) TL2.01143 per share (201.14%),

2. To privileged (Group A) shares with nominal value of TL1; (Gross) TL946,904.18 per share (94690418.22%),

3. To Members of the Board of Directors; (Gross) TL1,533,946.

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

v) Other

In accordance with the Communiqué No:XI-29 and related announcements of CMB, effective from 1 January 2008, "Paid-in capital", "Restricted Reserves" and "Share Premiums" need to be recognized over the amounts contained in the legal records. The valuation differences (such as inflation adjustment differences) shall be disclosed as follows:

- If the difference is arising from the valuation of "Paid-in Capital" and not yet been transferred to capital should be classified under the "Inflation Adjustment to Share Capital";
- If the difference is arising from valuation of "Restricted Reserves" and "Share Premium" and the amount has not been subject to dividend distribution or capital increase, it shall be classified under "Retained Earnings". Other equity items shall be carried at the amounts calculated based on CMB Financial Reporting Standards.

The Group's equity items are as follows:

	2012	2011
Paid-in Capital	2,837,014	2,837,014
Adjustment to Paid-in Capital	93,298,657	93,298,657
Share Premium	7,529	7,529
Restricted Reserves	24,253,234	23,348,454
Retained Earnings	73,770,237	46,873,952
Net Income for the Year	27,061,619	36,953,717
Total Attributable to Equity Holders of the Parent	**221,228,290**	**203,319,323**
Non-controlling Interest	46,541	41,511
Total Equity	**221,274,831**	**203,360,834**

NOTE 19 - SALES AND COST OF SALES

The Group's sales and cost of sales at the end of the reporting periods are as follows:

	2012	2011
Domestic Sales	159,038,289	168,855,258
Foreign Sales	61,877,166	48,951,674
Other Sales	3,250,380	3,536,416
Sales Returns (-)	(234,175)	(157,610)
Sales Discounts (-)	(9,212,722)	(8,915,522)
Other Discounts (-)	(1,709,059)	(965,120)
Net sales	**213,009,879**	**211,305,096**
Cost of Trade Goods Sold (-)	(21,881,581)	(23,065,111)
Cost of Goods Sold (-)	(144,939,436)	(136,183,529)
Cost of Other Sales (-)	(3,163,166)	(2,798,739)
Gross Profit	**43,025,696**	**49,257,717**

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

	2012	2011
Raw materials and supplies expenses (-)	(92,307,247)	(78,994,382)
Direct labour expenses (-)	(5,972,385)	(6,120,813)
General production overhead expenses (-)	(40,685,178)	(40,228,138)
Change in work-in process and finished goods (+)/(-)	(5,974,626)	(10,840,196)
Cost of finished goods sold	**(144,939,436)**	**(136,183,529)**
Cost of trade goods sold (-)	(21,881,581)	(23,065,111)
Cost of other sales (-)	(3,163,166)	(2,798,739)
Cost of Sales (-)	**(169,984,183)**	**(162,047,379)**

The Group's production and sales volumes at the end of the reporting periods are as follows:

	2012	2011
Production Quantities		
Coated Cardboard (Ton)	164,817	167,833
Scrap Paper (Ton)	98,306	99,560
Electricity Production (10^3Kwh)	126,438	133,012
Sales Quantities		
Coated Cardboard (Ton)	157,852	160,050
Scrap Paper (Ton)	98,383	99,065
Electricity Production (10^3Kwh)	19,095	25,504

NOTE 20 - RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SELLING AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

The Group's Operating Expenses at the end of the reporting periods are as follows:

	2012	2011
Marketing, Selling and Distribution Expenses (-)	7,191,680	3,766,691
General Administrative Expenses (-)	8,512,063	7,689,830
Total Operating Expenses	**15,703,743**	**11,456,521**

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

NOTE 21 - EXPENSES BY NATURE

The Group’s Expenses by Nature at the end of the reporting periods are as follows:

	2012	2011
Marketing, Selling and Distribution Expenses (-)	**7,191,680**	**3,766,691**
Transportation Expenses	4,270,547	1,611,573
Personnel Expenses	1,000,294	876,681
Export Expenses	510,502	329,497
Depreciation and Amortization Expenses	245,469	224,522
Fair Expense	299,039	-
Other Expenses	865,829	724,418
General Administrative Expenses (-)	**8,512,063**	**7,689,830**
Personnel Expenses	4,695,563	4,437,929
School Construction and Repair Expenses	1,560,604	1,126,900
Services Outsourced	690,788	658,509
Taxes, Fees and Dues Expenses	386,456	294,034
Depreciation and Amortization Expenses	122,862	199,731
Other Expenses	1,055,790	972,727
Total Operating Expenses	**15,703,743**	**11,456,521**

Depreciation and amortization expenses charged to the income statement accounts are as follows:

	2012	2011
Cost of Sales	10,684,822	9,847,837
Idle Capacity Expenses	480,710	664,152
Marketing, Selling and Distribution Expenses	245,469	224,522
General Administrative Expenses	122,862	199,731
Total	**11,533,863**	**10,936,242**

Personnel expenses charged to the income statement accounts are as follows:

	2012	2011
Cost of Sales	13,910,106	13,245,150
General Administrative Expenses	4,695,563	4,470,528
Marketing, Selling and Distribution Expenses	1,000,294	876,681
Idle Capacity Personnel Expenses	233,344	274,173
Total	**19,839,307**	**18,866,532**

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

NOTE 22 - OTHER OPERATING INCOME/EXPENSES

The Group's Other Income and Expenses at the end of the reporting periods are as follows:

	2012	2011
Other Operating Income	**2,043,610**	**1,849,978**
Scrap Sales	622,323	158,006
Incentive, Discount and Premium Income	468,734	875,070
Income from Insurance Damage Compensation	316,377	109,839
Released Provisions	109,941	244,731
Gain on Sale of Property, Plant and Equipment	70,714	147,841
Gain on Sale of Securities	17,510	15,241
Other Income and Profits	438,011	299,250
Other Operating Expenses	**(2,692,041)**	**(2,272,841)**
Provision Expenses for Employment Termination Benefits	(1,295,515)	(679,040)
Idle Capacity Expenses	(714,054)	(938,326)
Provision Expenses for Doubtful Receivables	(101,564)	(92,987)
Provision Expenses for Impairment of Inventories	(67,946)	(5,947)
Provision Expenses for Litigations	-	(18,456)
Other Expenses	(512,962)	(538,085)
Other Operating Income/Expenses (Net)	**(648,431)**	**(422,863)**

NOTE 23 – FINANCIAL INCOME

The Group's Financial Income at the end of the reporting periods is as follows:

	2012	2011
Interest Income	5,196,347	4,368,526
Foreign Exchange Gains	4,346,483	5,363,770
Interest Income from Sales on Credit Terms	4,118,845	3,456,511
Due Date Income	672,965	504,828
Total Financial Income	**14,334,640**	**13,693,635**

NOTE 24 - FINANCIAL EXPENSES

The Group's Financial Expenses at the end of the reporting periods is as follows:

	2012	2011
Foreign Exchange Losses (-)	4,422,950	2,345,992
Interest Expense from Purchases on Credit Terms (-)	1,643,577	1,293,765
Interest Expenses (-)	1,048,231	803,538
Other (-)	-	30
Total Financial Expenses	**7,114,758**	**4,443,325**

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

NOTE 25 - TAX ASSETS AND LIABILITIES

The Group's tax expense (or income) comprises of current income tax expense and deferred income tax expense (or income).

	2012	2011
Current Income Tax Expense (-)	(7,162,842)	(9,690,489)
Deferred Tax Income	337,138	23,560
Total Tax Expense	**(6,825,704)**	**(9,666,929)**

	2012	2011
Current Income Tax Payable	7,162,842	9,690,489
Prepaid Taxes	(5,946,511)	(8,193,919)
Total Taxes Payable, Net	**1,216,331**	**1,496,570**

i) Current Income Tax

In Turkey, corporations are required to pay advance corporation tax quarterly. Advance corporate taxes on the Group's corporate income in 2012 were calculated quarterly at a tax rate of 20%.

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

In accordance with Corporate Income Tax Law Article 20, corporate tax is levied per the tax-payer's declaration. There is no procedure for a final and definitive agreement on tax assessments. Corporations file their tax returns within the 25th of the fourth month following the close of the related financial year. 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 within 5 years.

Income Tax Withholding

Additional to the corporate tax, corporations are required to pay income tax withholding on the dividends distributed except for the dividends paid to tax-payers which declare these dividends as part of their corporate income and to non-resident corporations, which have a representative office in Turkey, or resident corporations: With the Council of Ministers decision numbered 2006/10731 published in Official Gazette on 23 July 2006, the income tax withholding was increased to 15% from 10%. With the Council of Ministers decision dated 12 January 2009 numbered 2009-14952, it was decided to continue to the application of 15%.

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

ii) Deferred Income Taxes

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements prepared in compliance with CMB Financial Reporting Standards and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for CMB financial statements and statutory tax financial statements and are set out below. 20% tax rate is considered in the calculation of the deferred income taxes.

	Cumulative Temporary Differences		**Deferred Income Tax**	
	2012	**2011**	**2012**	**2011**
Property, Plant and Equipment	8,398,954	10,330,389	(1,679,791)	(2,066,078)
Discount Expense	(212,160)	(269,593)	42,432	53,918
Discount Income	174,038	214,483	(34,807)	(42,896)
Provision for Employment Termination Benefits	(4,226,720)	(3,713,613)	845,344	742,722
Provision for Doubtful Receivables	(93,663)	(9,196)	18,733	815
Provisions for Litigations	-	(109,531)	-	21,907
Other Provisions	(108,233)	(166,544)	(21,647)	33,310
Inventories	806,654	60,805	(161,331)	(12,161)
Other	100,976	197,733	20,195	(39,547
Deferred Income Tax Liability, Net			**(970,872)**	**(1,308,010)**

	2012	**2011**
Deferred Income Tax Liability at the Beginning of Period	(1,308,010)	(1,331,570)
Deferred Tax Income	337,138	23,560
Deferred Income Tax Liability, Net	**(970,872)**	**(1,308,010)**

Tax reconciliation of current income tax expense to the income for the period is as follows;

Tax reconciliation:

	2012	**2011**
Profit from continuing operations	33,893,404	46,628,643
Income tax rate 20%	6,778,681	9,325,729
Tax Impact:		
- Non-deductible expenses	47,023	341,200
Current Income Tax Expense	**6,825,704**	**9,666,929**

NOTE 26 - EARNINGS PER SHARE

Earnings per share are determined by dividing the net income by the weighted average number of shares that have been outstanding during the year. The Group's earnings/loss per share is calculated as follows:

Companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such bonus shares are regarded as issued shares. Accordingly, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources, by giving them retroactive effect for the period in which they were issued and for each earlier year.

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

In Accordance with the Company's Articles of Association

Number of Shares	283,701,421
Nominal Value of Each Share	0.01-TL
Total Nominal Value	2,837,014.21-TL

Although the nominal value of each share is TL0.01 in accordance with the new Articles of Association of the Company, to enable comparability with prior years and presentation of shares with TL1 nominal value at Istanbul Stock Exchange, the earnings per share is calculated using the weighted number of shares per nominal value of TL1.

	2012	**2011**
Net Income for the Period	27,061,619	36,953,717
Weighted average number of shares (TL1 nominal value of each)	2,837,014	2,837,014
Earnings per Share with TL1 Nominal Value of Each	**9.53877**	**13.02557**

NOTE 27 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a) Balances with related parties

	Receivables		**Payables**	
31 December 2012	**Trade Receivables**	**Non-Trade Receivables**	**Trade Payables**	**Non-Trade Payables**
Dönkasan	-	-	5,099,515	-
Mell Macedonian Paper	222,193	-	-	-
Shareholders (Dividends)	-	-	-	208,179
Pak Holding A.Ş.	-	-	4,119	-
Pak Gıda Üretim ve Paz. A.Ş.	-	-	247	-
Asil Gıda ve Kimya San. ve Tic. A.Ş. ("Asil Gıda")	-	-	24,913	-
Total	**222,193**	**-**	**5,128,794**	**208,179**

	Receivables		**Payables**	
31 December 2011	**Trade Receivables**	**Non-Trade Receivables**	**Trade Payables**	**Non-Trade Payables**
Dönkasan	-	-	4,132,329	-
Shareholders (Dividends)	-	-	-	194,709
Asil Gıda	-	-	18,180	-
Total	**-**	**-**	**4,150,509**	**194,709**

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

b) Sales to and purchases from related parties

31 December 2012

	Purchases				Sales			
	Rent	Goods and Services	Other (*)	Total	Rent	Services	Goods and Other	Total
Dönkasan	-	29,864,946	-	29,864,946	-	-	-	-
Mell	-	3,132,059	-	3,132,059	-	-	368,782	368,782
Pak Holding A.Ş. (*)	-	-	5,280	5,280	-	-	-	-
Pak Gıda A.Ş.	-	27,757	-	27,757	-	-	-	-
Asil Gıda (**)	372,000	-	181,131	553,131	-	-	-	-
Total	**372,000**	**33,024,762**	**186,411**	**33,583,173**	**-**	**-**	**368,782**	**368,782**

(*) Comprises of legal consultancy service.
(**) Comprises of dues for Pak İş Merkezi.

The nature of transaction and guarantees received from- given to related parties are as follows:

31 December 2012	Nature of Relation	Nature of Guarantee	Amount of Guarantee
Mell Macedonian Paper SA.	Sale of goods	None	-
Pak Holding A.Ş.	Legal Consultancy Service	None	-
Pak Gıda Üretim ve Paz. A.Ş.	Purchase of raw materials	None	-
Asil Gıda ve Kimya San. ve Tic. A.Ş.	Pak İş Merkezi Rent ve Due Payments	None	-
Total			**-**

31 December 2011

	Purchases				Sales			
	Rent	Goods and Services	Other (*)	Total	Rent	Services	Goods and Other	Total
Dönkasan	-	29,864,946	-	29,864,946	-	-	-	-
Asil Gıda	336,000	-	168,087	504,087	-	-	-	-
Total	**336,000**	**29,864,946**	**168,087**	**30,369,033**	**-**	**-**	**-**	**-**

(*) Comprises of dues for Pak İş Merkezi.

The nature of transaction and guarantees received from- given to related parties are as follows:

31 December 2011	Nature of Relation	Nature of Guarantee	Amount of Guarantee
Asil Gıda ve Kimya San. ve Tic. A.Ş.	Pak İş Merkezi Rent ve Due Payments	None	-
Total			**-**

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

c) Key management compensation

Description	31 December 2012	31 December 2011
Short term employee benefits	1,603,979	1,421,080
Total	**1,603,979**	**1,421,080**

NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

(a) Capital risk management

The Group manages its capital to ensure that the Group will be able to continue as a going concern and to maintain an optimal capital and debt structure to increase profitability.

The Group's capital structure includes borrowings disclosed in Note 7, cash and cash equivalents disclosed in Note 6 and the equity items of capital, capital reserves, legal reserves and retained earnings disclosed in Note 18.

The Group's cost of capital together with the risks associated with class of capital is assessed by senior management. Based on the assessments by senior management, it is aimed to maintain capital structure through new borrowings or payments of existing debts as well as dividend payments and issue of new shares.

The Group monitors capital on the basis of the debt/ equity ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total liabilities (borrowings and trade payables as disclosed in the balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

The Group's overall strategy on capital management does not differ from prior period.

The Group's risk management policy focuses on the unpredictability and volatility of the financial markets and seeks to minimize potential adverse effects.

(b) Significant accounting policies

The Group's significant accounting policies related to financial instruments are disclosed in Note 2.

(c) Risks exposed by the Group

The Group is exposed to foreign currency exchange risk, interest rate risk and other risks because of its activities. The Group is also exposed to the risk that counterparties may be unable to meet the terms of their agreements due to the financial instruments it holds. The market risks exposed at the Group level are measured with sensitivity analysis. There were no changes in the current period in the market risks the Group was exposed to or the methods the Group manages these risks or how the Group measures such risks compared to prior periods.

(c.1) Currency risk management

Foreign currency denominated transactions leads to currency risk.

The Group is exposed to currency risk due to the changes in the foreign currency rates used to translate foreign currency denominated assets and liabilities into TL. Currency risk arises due to future trade transactions and the differences between the recognized assets and liabilities.

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

The Group mainly is exposed to currency risk due to foreign currency denominated deposit accounts, foreign currency denominated receivables and liabilities.

Foreign Currency Sensitivity Analysis
31 December 2012

	Gain /Loss	
	Appreciation of Foreign Currency	**Depreciation of Foreign Currency**
If USD appreciated/(depreciated) against TL by 10%;		
1- Net Asset/Liability in USD	958,857	(958,857)
2- Hedged amount (-)	-	-
3- Net Effect-of USD (1+2)	**958,857**	**(958,857)**
If EUR appreciated/(depreciated) against TL by 10%		
4- Net Asset/Liability in EUR	4,599,956	(4,599,956)
5- Hedged amount (-)	-	-
6- Net Effect-of EUR (4+5)	**4,599,956**	**(4,599,956)**
If other foreign currencies appreciated/(depreciated) against TL by 10%		
7- Net Asset/Liability in other foreign currencies	-	-
8- Hedged amount (-)	-	-
9- Net Effect-of Other Foreign Currencies (4+5)	**-**	**-**
Total	**5,558,813**	**(5,558,813)**

Foreign Currency Sensitivity Analysis
31 December 2011

	Gain /Loss	
	Appreciation of Foreign Currency	**Depreciation of Foreign Currency**
If USD appreciated/(depreciated) against TL by 10%		
1- Net Asset/Liability in USD	678,263	(678,263)
2- Hedged amount (-)	-	-
3- Net Effect-of USD (1+2)	**678,263**	**(678,263)**
If EUR appreciated/(depreciated) against TL by 10%		
4- Net Asset/Liability in EUR	1,574,452	(1,574,452)
5- Hedged amount (-)	-	-
6- Net Effect-of EUR (4+5)	**1,574,452**	**(1,574,452)**
If other foreign currencies appreciated/(depreciated) against TL by 10%		
7- Net Asset/Liability in other foreign currencies	-	-
8- Hedged amount (-)	-	-
9- Net Effect-of Other Foreign Currencies (4+5)	**-**	**-**
Total	**2,252,715**	**(2,252,715)**

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

Foreign Currency Position

	31 December 2012					31 December 2011				
	TL Equivalent	USD	EUR	CHF	Other	TL Equivalent	USD	EUR	CHF	Other
1. Trade Receivables	9,099,565	817,507	3,249,682	-	-	8,819,235	998,355	2,837,156	-	-
2a. Monetary Financial Assets	49,332,190	4,601,044	17,489,608	-	-	16,762,519	2,759,273	4,725,894	-	-
2b. Non-Monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
3. Other	-	-	-	-	-	-	-	-	-	-
4. Total Current Assets (1+2+3)	**58,431,755**	**5,418,551**	**20,739,290**	-	-	**25,581,754**	**3,757,628**	**7,563,050**	-	-
5. Trade Receivables	-	-	-	-	-	-	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
6b. Non-Monetary Financial Assets	-	-	-	-	-	-	-	-	-	-
7. Other	-	-	-	-	-	-	-	-	-	-
8. Total Non-Current Assets (5+6+7)	-	-	-	-	-	-	-	-	-	-
9. Total Assets (4+8)	**58,431,755**	**5,418,551**	**20,739,290**	-	-	**25,581,754**	**3,757,628**	**7,563,050**	-	-
10. Trade Payables	2,843,565	39,383	1,173,518	-	-	3,053,207	166,044	1,115,025	-	-
11. Financial Liabilities	-	-	-	-	-	-	-	-	-	-
12a. Other Monetary Liabilities	-	-	-	-	-	-	-	-	-	-
12b. Other Non-Monetary Liabilities	-	-	-	-	-	-	-	-	-	-
13. Total Current Liabilities (10+11+12)	**2,843,565**	**39,383**	**1,173,518**	-	-	**3,053,207**	**166,044**	**1,115,025**	-	-
14. Trade Payables	-	-	-	-	-	-	-	-	-	-
15. Financial Liabilities	-	-	-	-	-	-	-	-	-	-
16a. Other Monetary Liabilities	-	-	-	-	-	-	-	-	-	-
16b. Other Non-Monetary Liabilities	-	-	-	-	-	-	-	-	-	-
17. Total Non-Current Liabilities (14+15+16)	-	-	-	-	-	-	-	-	-	-
18. Total Liabilities (13+17)	**2,843,565**	**39,383**	**1,173,518**	-	-	**3,053,207**	**166,044**	**1,115,025**	-	-
19. Net Asset/Liability position of off-the balance sheet derivatives (19a-19b)	-	-	-	-	-	-	-	-	-	-
19a. Total Hedged Assets	-	-	-	-	-	-	-	-	-	-
19b. Total Hedged Liabilities	-	-	-	-	-	-	-	-	-	-
20. Net Foreign Exchange Asset/(Liability) Position (9-18+19)	**55,588,190**	**5,379,168**	**19,565,772**	-	-	**22,528,547**	**3,591,584**	**6,448,025**	-	-
21. Net Asset/(Liability) Position of Monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**55,588,190**	**5,379,168**	**19,565,772**	-	-	**22,528,547**	**3,591,584**	**6,448,025**	-	-
22. Fair value of financial derivatives used in hedging	-	-	-	-	-	-	-	-	-	-
23. Hedged portion of foreign currency denominated assets	-	-	-	-	-	-	-	-	-	-
23. Hedged portion of foreign currency denominated liabilities	-	-	-	-	-	-	-	-	-	-
23. Exports	45,504,667	6,191,371	14,919,705	-	465,361	39,566,850	6,941,178	11,957,596	-	465,361
24. Imports	10,709,968	1,846,330	3,602,634	-	1,070	17,231,741	3,875,721	4,122,671	563,220	1,070

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

(c.2) Interest rate risk management

Interest Rate Position

	Financial Assets with fixed ratio	31 December 2012	31 December 2011
	Financial Assets at Fair Value through Profit and Loss	81,736,445	60,383,053
Financial Assets	Financial Assets Held for Sale	-	-
Financial Liabilities		-	-
	Financial Assets with variable interests		
Financial Assets		-	-
Financial Liabilities		-	-

The Group does not have financial instruments with variable interest rates. The Group's financial instruments with fixed interest rates are taken into consideration in the analysis due to their short-term nature. Major portion of the Group's bank deposits are time deposits. The decreases in the interest rates would result in losses. As of 31 December 2012, if TL interest rate had been 1% higher/ lower and all other variables were held constant, income before taxes and non-controlling interests would be TL817,364 higher/ lower (2011: TL603,830).

The above analyses are based on the assumption that all other variables remain constant except for interest rates.

(c.3) Credit risk management

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. The Group's credit risk mainly arises from trade receivables. Trade receivables are assessed in accordance with Group policies and principles and carried at the balance sheet at their net values after allowance for doubtful receivables (Note 8).

The Group's trade receivables consist of receivables from customers almost all of which are secured by adequate guarantees and the Group established an effective control mechanism over its customers. The credit risk is monitored for each customer by the Group management and is limited for each debtor. There is no credit and concentration risk as trade receivables are from many different customers rather than a few customers with high amounts.

All domestic trade receivables of the Group's is secured by guarantee letters and major portion of the foreign receivables of the Group is secured by Eximbank credit insurance.

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

Exposure to Credit Risk by Financial Instrument Type

	Receivables						
	Trade Receivables		Other Receivables				
31 December 2012	**Related Parties**	**Other**	**Related Parties**	**Other**	**Note**	**Deposits and Reverse Repurchase Agreements at Banks**	**Note**
Maximum credit risk exposure at the reporting date (A+B+C+D+E)		**27,857,169**		**2,372,390**		**82,318,982**	
- Secured portion of the maximum risk by guarantees		*19,464,594*					
A. Net book value of financial assets not due not impaired		**18,267,048**		**2,372,390**	**8-9**	**82,318,982**	**6**
B.Net book value of financial assets whose terms are renegotiated, otherwise that would be past due or impaired		**-**			**8-9**		
C. The net book value of assets that are past due but not impaired (*)		**4,888,256**					**6**
- The portion under guarantees		*4,888,256*			**8-9**		**6**
D. Net book value of impaired assets		**4,701,865**					**6**
- Past due (gross book value)		5,194,377			**8-9**		**6**
- Impairment (-)		*(755,618)*			**8-9**		**6**
- Portion of the net value with guarantees (**)		*4,438,759*			**8-9**		**6**
- Not Due (gross book value)		-			**8-9**		**6**
- Impairment (-)		-			**8-9**		**6**
- Portion of the net value with guarantees		-			**8-9**		**6**
E. Off-balance sheet items with credit risk		**-**					

	Receivables						
	Trade Receivables		Other Receivables				
31 December 2011	**Related Parties**	**Other**	**Related Parties**	**Other**	**Note**	**Deposit at Banks**	**Note**
Maximum credit risk exposure at the reporting date (A+B+C+D+E)		**25,771,032**		**124,493**		**60,884,974**	
- Secured portion of the maximum risk by guarantees		*18,393,434*					
A. Net book value of financial assets not due not impaired		**14,346,308**		**124,493**	**8-9**	**60,884,974**	**6**
B.Net book value of financial assets whose terms are renegotiated, otherwise that would be past due or impaired		**-**			**8-9**		**6**
C. The net book value of assets that are past due but not impaired (*)		**6,722,859**					**6**
- The portion under guarantees		*6,722,859*			**8-9**		**6**
D. Net book value of impaired assets		**4,701,865**					**6**
- Past due (gross book value)		5,366,591			**8-9**		**6**
- Impairment (-)		*(664,726)*			**8-9**		**6**
- Portion of the net value with guarantees (**)		*4,701,865*			**8-9**		**6**
- Not Due (gross book value)		-			**8-9**		**6**
- Impairment (-)		-			**8-9**		**6**
- Portion of the net value with guarantees		-			**8-9**		**6**
E. Off-balance sheet items with credit risk		**-**					

(*) The maturity analysis of the assets which are past due but not impaired is as follows.

	2012	**2011**
Past due by 0-3 Months	4,888,256	6,722,859
Total	**4,888,256**	**6,722,859**
Guarantee Amount (Guarantee Letter)	**4,888,256**	**6,722,859**

(**) 90% of foreign receivables are secured with Eximbank credit insurance. The guarantee amount comprises of the 90% of the foreign receivables which are secured under Eximbank credit insurance.

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

(c.4) Liquidity risk management

The Group manages the liquidity risk through regularly monitoring the cash flows and maintaining sufficient funds and borrowing reserves by way matching the maturities of financial assets and liabilities.

Liquidity risk schedules

Prudent liquidity risk management signifies maintaining sufficient amount of cash, sufficient loan transactions and utilization of funds and ability to close market positions.

The risk of financing the current and possible future debt requirements is managed by maintaining sufficient and reliable sources of high quality loans as accessible.

The maturities of the Group's derivative and non-derivative financial liabilities in TL are presented in the below schedule.

31 December 2012

Maturity of Agreements	Book Value	Total Contractual Cash Outflow	Less than 3 Months	3-12 Months	1-5 Years	Over 5 Years
Non-derivative financial liabilities	**19,412,453**	**19,586,491**	**19,586,491**	**-**	**-**	**-**
Bank loans	*363,539*	*363,539*	*363,539*	-	-	-
Bonds	-	-	-	-	-	-
Finance Lease Liabilities	-	-	-	-	-	-
Trade Payables	*16,100,017*	*16,274,055*	*16,274,055*	-	-	-
Other Payables	*2,948,897*	*2,948,897*	*2,948,897*	-	-	-
Other	-	-	-	-		

Maturity of Agreements	Book Value	Total Contractual Cash Outflow	Less than 3 Months	3-12 Months	1-5 Years	Over 5 Years
Derivative Financial Liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Derivative Cash Inflows	-	-	-	-	-	-
Derivative Cash Outflows	-	-	-	-	-	-

31 December 2011

Maturity of Agreements	Book Value	Total Contractual Cash Outflow	Less than 3 Months	3-12 Months	1-5 Years	Over 5 Years
Non-derivative financial liabilities	**18,414,625**	**18,629,108**	**18,629,108**	**-**	**-**	**-**
Bank loans	*62,557*	*62,557*	*62,557*	-	-	-
Bonds	-	-	-	-	-	-
Finance Lease Liabilities	-	-	-	-	-	-
Trade Payables	*15,216,483*	*15,430,966*	*15,430,966*	-	-	-
Other Payables	*3,135,585*	*3,135,585*	*3,135,585*	-	-	-
Other	-	-	-	-	-	-

Maturity of Agreements	Book Value	Total Contractual Cash Outflow	Less than 3 Months	3-12 Months	1-5 Years	Over 5 Years
Derivative Financial Liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Derivative Cash Inflows	-	-	-	-	-	-
Derivative Cash Outflows	-	-	-	-	-	-

(c.5) Analysis of Other Risks

Associated with financial instruments of common stocks, etc.

The Group does not own financial assets like common stocks, etc. which are subject to fair value changes.

NOTE 29 - FINANCIAL INSTRUMENTS (FAIR VALUE ESTIMATION) AND HEDGE ACCOUNTING

The Group estimates that the carrying amounts of its financial instruments reflect their fair values.

Financial risk management objectives

The Group's Finance Department is responsible for maintaining regular access to financial markets and monitoring and managing the financial risks exposed due to the Group's operations. These risks include market risk (currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group does not utilize derivative financial instrument of forward foreign-currency transaction contracts to minimize the effects of these risks and to hedge against these financial risks. The Group does not have financial instruments for speculative purposes (including derivative financial instruments) and does not have an activity for the sale-purchase of such instruments.

Kartonsan Karton Sanayi ve Ticaret Anonim Şirketi

2012 Profit distribution declaration

Below is the proposal for profit distribution based on the Article No:25 of the Articles of Association of the Company, relating to the profit for the year ending December 31, 2012. The proposal for the profit distribution as of April 02, 2013 is presented for General Assembly's appraisal and approval.

1- Paid in / Issued Capital			2.837.014,21
2-Total Legal Reserves			2.593.834,25
Information relating to the Privileges during profit distribution, if there is any stated in the Articles of Association.			5% of the remaining profit after legal reserves and 10% of the paid-in capital are deducted from the net profit is distributed to the (Group A) privileged shareholders.
		According to CMB	**According to Legal Books**
3.	**Current Period Profit**	33,887,323.00	33,852,618.46
4.	**Taxes and Legal Duties Payable (-)**	6,825,704.00	6,914,316.58
5.	**Net Profit for the Period**	27,061,619.00	26,938,301.88
6.	**Previous Years' Losses (-)**	0.00	0.00
7.	**First Legal Reserves (-)**	0.00	0.00
8.	**Net Distributable Period Profit**	27,061,619.00	26,938,301.88
9.	**Endowments During the Year**	1,622,103.82	
10.	**Net Distributable Period Profit Basis for First Dividend Calculation, incl. Endowments**	28,683,722.82	
11.	**First Dividend to Shareholders**	4,302,558.42	
	Cash	4,302,558.42	
	Bonus Shares	0	
	Total	4,302,558.42	
12.	**Dividend Distributed to Owners of Privileged Shares**	1,420,001.07	
13.	**Dividend Distributed to Board of Directors Members**	1,136,000.86	
14.	**Dividend Distributed to Owners of Redeemed Shares**	0	
15.	**Second Dividend to Shareholders**	0	
	Cash	0	
	Bonus Shares	0	
	Total	0	
16.	**Second Legal Reserves**	671,670.95	
17.	**Statutory Reserves**		
18.	**Special Reserves**		
19.	**Extraordinary Reserves**	19,531,387.70	19,408,070.58
20.	**Other Distributable Items**		
	Previous Years' Profit		
	Extraordinary Reserves		
	Other Distributable Reserves as per the Law and Articles of Association		

SUMMARY OF PROFIT DISTRIBUTIONS	**Total Gross Dividend**	**Tax Deduction**	**Total Net Dividend**
Common Shares	4,302,558.42	645,383.76	3,657,174.66
Privileged (Group A) Shares	1,420,001.07	213,000.16	1,207,000.91
Dividend Paid to Board of Directors	1,136,000.86	170,400.13	965,600.73
TOTAL	**6,858,560.35**	**1,028,784.05**	**5,829,776.30**

DIVIDEND INFORMATION PER SHARE

			DIVIDEND PER SHARE WITH A NOMINAL VALUE OF TL 1	
	GROUP	**TOTAL DIVIDEND**	**AMOUNT (TL)**	**RATE (%)**
GROSS	**Privileged Share (Group A) Owners**	1,420,001.07	710,000.53500	71,000,053.50
	Group B Shares Owners	4,302,558.42	1.51658	151.658
	TOTAL	**5,722,559.49**		
NET	**Privileged Share (Group A) Owners**	1,207,000.91	603,500.45475	60,350,045.48
	Group B Shares Owners	3,657,174.66	1.28909	128.909
	TOTAL	**4,864,175.57**		

THE RATIO OF DISTRIBUTED DIVIDEND TO THE ENDOWMENT ADDED NET DISTRIBUTABLE PERIOD PROFIT

DIVIDEND DISTRIBUTED TO THE SHAREHOLDERS (TL)	**THE RATIO OF THE DIVIDEND DISTRIBUTED TO THE SHAREHOLDERS TO THE ENDOWMENT ADDED NET DISTRIBUTABLE PERIOD PROFIT (%)**
4,302,558.42	15.00

Kartonsan Karton Sanayi ve Ticaret Anonim Şirketi

Board of Directors annual report pursuant to the communique series: XI No: 29

A) REPORT PERIOD: 01.01.2012-31.12.2012

B) GENERAL INFORMATION;

a) The Company's Field of Activity: Kartonsan is engaged in the manufacture of coated cardboard at its own factory located in Kullar Village, Kocaeli, and in the domestic and foreign trade of its products. The Company also produces the electricity and steam it requires for manufacturing from its natural gas processing plant as permitted by its Autoproducer License, and sells the excess electricity in line with electricity market legislation. The Company carries out its manufacturing activities at the factory in the Kullar Village, Kocaeli while the general management, finance, marketing and purchasing operations are handled at the Head Office in Gayrettepe, Istanbul. The Company also owns a branch which is used as a sales office and a storehouse, located in Sefaköy, Istanbul.

Head Office:

Prof. Dr. Bülent Tarcan Sok. Pak İş Merk. (Pak Business Center) No: 5 Kat: 3 Gayrettepe/Beşiktaş/ISTANBUL

Tel: 0-212-273 20 00 Fax: 0-212-273 21 70 Web: www.kartonsan.com.tr

Factory:

Yaylacık Mahallesi, Karamürsel Caddesi, No:300 41140 Kullar/Başiskele/Kocaeli

Tel: 0-262-349 61 50 Fax: 0-262- 349 33 00

Sales Office:

Mareşal Fevzi Çakmak Cad. No: 1 Sefaköy/Istanbul

Tel: 0-212 598 95 35 Fax: 0-212- 598 95 36

Tax Office: Large Taxpayers

Tax Registration No: 5260057491

Trade Registration No: 95869/41270

Company's Paid-in Capital: TL 2,837,014.21

Company's Paid-in Capital: 283,701,421 shares

Shares Representing Company's Paid-in Capital:

A-Type Shares: 200 Shares

B-Type Shares: 283,701,221 Shares

A-Type Shares are privileged in dividend distribution, but do not provide privileges for voting rights.

Board of Directors annual report pursuant to the communique series: XI No: 29

b) Information on Ownership Structure, Board of Directors and Audit Committee:

All Company shares comprise of bearer shares and approximately 97% of these are suitable for trading on the stock exchange. Accordingly, the Company's ownership structure as submitted to the most recent General Assembly and the Borsa Istanbul (BIST) is as follows. Note that the shareholder structure may vary over time due to the reasons explained above.

Title of Shareholder	Number of Shares	Stake (%)
Pak Holding A.Ş.	975,589	34.39
Pak Gıda Üretim ve Pazarlama A.Ş.	564,903	19.91
Asil Gıda ve Kimya San. ve Tic. A.Ş.	523,524	18.45
Oycan İthalat İhracat ve Ticaret A.Ş.	45,300	1.60
Other Shareholders (Free Float)	727,698	25.65
Capital at Historical Cost	2,837,014	100.00

The paid-in capital of the Company is TL 2,837,014.21, comprising 283,701,421 shares each with a nominal value of TL 0.01.

In accordance with the relevant articles of the Articles of Association of the Company, the regulations concerning the Board of Directors and Audit Committee are as follows.

Board of Directors

Article: 8- The Company is administrated and represented by the Board of Directors consisting of at least 7 (seven) and at most 11 (eleven) members, to be elected by the General Assembly. The number of the members of the Board of Directors is designated, enabling them to perform their duties efficiently and constructively, to take rapid and rational decisions, and to form and organize the function of the committees effectively.

The Corporate Governance Principles are followed where their implementation is made obligatory by the Capital Markets Board. Any transactions or Board decisions which contravene the obligatory principles are invalid and deemed contrary to the Articles of Association. The quantity and the quality of the independent members of the Board of Directors are decided in accordance with the Capital Markets Board's corporate governance regulations.

Every year the Board Members elect a chairperson and two vice-chairpersons to substitute the chairperson in their absence.

The General Assembly is authorized to change Board Members whenever it deems necessary. Any Board Member who has been removed from duty is not entitled to demand any compensation.

The Duties and Authorities of the Board of Directors and Transfer of these Rights

Article: 9- The management and representation of the Company belong to the Board of Directors. The Board of Directors carries out the duties defined in the Articles of Association and relevant legislation.

The necessary committees are formed in accordance with the Capital Markets Legislation and Corporate Governance Principles. In the event that the Corporate Governance Committee has two members, both will be non-executive Board members; in the event that it has more than two members, the majority of them will consist of non-executive Board members.

The Board of Directors is authorized to decide the distribution of work among Board members, to elect the executive committee among Board members or senior managers and to appoint the general manager.

The Company is represented and can be indebted with two authorized signatures. The Board of Directors decides upon the authorized individuals and the required combination of these individuals to represent and bind the Company with their signatures, and issues a circular of authorized signatures.

Kartonsan Karton Sanayi ve Ticaret Anonim Şirketi

Board of Directors annual report pursuant to the communique series: XI No: 29

While managing and representing the Company, the Board of Directors itself follows, controls and ensures the compliance with rules on public disclosure and transparency under the Capital Markets Legislation and corporate governance principles, and upholds the protection of the fundamental rights of stakeholders, which are regulated by legislation and mutual agreements.

The Authorization of Board of Directors to Issue Bonds and Other Capital Market Instruments

Article: 10 - In accordance with the provisions of the Turkish Commercial Code, the Capital Markets Law and other relevant legislation, the Company may issue bonds and other capital market instruments serving as debt certificates, to be marketed in domestic and international markets. In accordance with Article 13 of the Capital Markets Board, the Board of Directors is authorized to issue bonds and other capital market instruments serving as debt certificates. In such an instance, Article 423 of the Turkish Commercial Code does not apply.

Board of Directors' Meetings

Article: 11- The Board of Directors convenes at least once a month in order to perform their duties effectively. The Chairman of the Board of Directors determines the agenda of the meetings, having negotiated with the other Board members and the President of the Executive Committee. The meetings are held at the Company's Head Office. However, the Board of Directors may decide to convene in a location outside the Head Office or through all technological methods providing remote access. Each and every member of the Board holds one single voting right. The Board of Directors' meeting is held with the participation of a majority of the Board members, and decisions are taken by the majority of the Board members present at the meeting.

Compensation of Board Members

Article: 12- The compensation of the Chairman of the Board of Directors and Board Members are determined by the General Assembly in accordance with the Capital Markets Legislation and Corporate Governance Principles.

Auditors

Article: 13- The General Assembly elects either one or two auditors for a period of one year.

Compensation of Auditors

Article: 14- The Auditors receive monthly or annual compensation as determined by the General Assembly.

Duties of Auditors

Article: 15- The Auditors perform their duties in accordance with the rulings of the Turkish Commercial Code and Capital Markets Law. Additionally, they are able to present suggestions to the Board of Directors to ensure the adoption of measures to protect Company interests. In case it is deemed necessary, each Auditor is authorized to invite the General Assembly and Board of Directors to a meeting and determine the agenda.

The Company's Annual General Meeting concerning activities in the 2011 calendar year was held on 2nd May, 2012. In the Annual General Meeting, the members of the Board of Directors and Audit Committee listed blow were elected to serve for a 1-year period.

Board of Directors annual report pursuant to the communique series: XI No: 29

The following individuals serve on the Board of Directors and Audit Committee of the Company.

BOARD of DIRECTORS

Name - Surname	Title	Term of Office
Sinan Ercan Gülçur	Chairman of the Board of Directors	02.05.2012- 1 YEAR
Aslı Balkır	Vice Chairman of the Board of Directors	02.05.2012- 1 YEAR
Ünal Bozkurt	Vice Chairman of the Board of Directors	02.05.2012- 1 YEAR
Babür Gökçek	Board Member	02.05.2012- 1 YEAR
Mehmet İmregün	Board Member	02.05.2012- 1 YEAR
Hatice Canan Pak İmregün	Board Member	01.10.2012- 1 YEAR
Süleyman Kaya	Board Member	02.05.2012- 1 YEAR
Ali Ersin Güredin	Independent Board Member	02.05.2012- 1 YEAR
Tamer Koçel	Independent Board Member	02.05.2012- 1 YEAR
Haluk İber	Board Member and General Manager	02.05.2012- 1 YEAR

AUDIT BOARD

Name - Surname	Title	Term of Office
Erdal Çalıkoğlu	Auditor	01.01.2012- 02.05.2013
Hakan Hasan Arı	Auditor	01.01.2012- 02.05.2013

AUDIT COMMITTEE

Name - Surname	Title	Term of Office
Ali Ersin Güredin	President of the Audit Committee	04.05.2012- 1 YEAR
Tamer Koçel	Member of the Audit Committee	04.05.2012- 1 YEAR

CORPORATE GOVERNANCE COMMITTEE

Name - Surname	Title	Term of Office
Tamer Koçel	President of the Corporate Governance Committee	04.05.2012- 1 YEAR
Ünal Bozkurt	Member of the Corporate Governance Committee	04.05.2012- 1 YEAR
Mehmet İmregün	Member of the Corporate Governance Committee	04.05.2012- 1 YEAR

MEMBERS OF THE BOARD OF DIRECTORS, AUDIT BOARD AND AUDIT COMMITTEE WHOSE TERMS OF OFFICE EXPIRED DURING THE REPORTING PERIOD

Name - Surname	Title	Term of Office
Mehmet Talu Uray	Board Member and General Manager	01.01.2012- 01.10.2012
Ünal Bozkurt	Member of the Audit Committee	21.03.2011- 02.05.2012
Mehmet İmregün	Member of the Audit Committee	21.03.2011- 02.05.2012

c) Information on Affiliates and Subsidiaries:

The Company holds shares in the companies whose shareholder structures are shown below.

Selka İç ve Dış Ticaret A.Ş.

Shareholder Name/Title	Number of Shares	Stake (%)
Kartonsan Karton Sanayi ve Ticaret A.Ş.	1,240,838.75	99.27
Other real and legal person shareholders	9,161.25	0.73
TOTAL	**1,250000.00**	**100**

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Dönkasan Dönüşen Kağ. Ham. San. ve Tic. A.Ş.

Shareholder Name/Title	Number of Shares	Stake (%)
Kartonsan Karton Sanayi ve Ticaret A.Ş.	74,999	50
Olmuksa International Paper Amb. San. ve Tic. A.Ş.	74,969	50
Exsa Export Sanayi Mamulleri Satış ve Araştırma A.Ş.	1	0<
Tursa A.Ş.	30	0<
Selka İç ve Dış Ticaret A.Ş.	1	0<
TOTAL	**150,000**	**100**

C) MARKET PROFILE, OPERATIONS AND EXPECTATIONS

a) Market Profile:

The Company has been operating in the coated cardboard sector since its foundation in 1967. Kartonsan's principal products, which are manufactured from recycled paper, are known as “Dublex (GD)” and “Triplex (GD)” coated cardboards in the market. The coated cardboard sector principally supplies packaging material to the food and pharmaceutical industries. The packaging material is designed for products in daily use, including a wide range of food items, pharmaceuticals, detergents, matches, perfumes, textiles, perforated laminate, stationery, books and notebooks, glassware, and small white durables goods. Kartonsan's products are utilized in various industries and are certified by the Ministry of Agriculture, Food and Livestock in terms of their suitability for food packaging. Its products are also certified by several reports issued by various international analytical laboratories for compliance with the BfR (German Federal Institute for Risk Assessment), with particular reference to usage in packaging that directly touches dry food.

The sales volume of CEPI member coated cardboard manufacturers decreased by 3.2% in 2012 worldwide. According to CEPI data (www.cepi.org), member manufacturers' global sales volumes of coated cardboard continued to contract. The total sales of CEPI member manufacturers of coated cardboard are estimated to have declined by 3.2% in 2012 following a 3.7% contraction in 2011.

On the other hand, total coated cardboard sales to Europe by CEPI manufacturers are also on a declining trend. Having contracted by 5.4% in 2011, sales to European markets declined by a further 3% in 2012 amid the continued weak growth conditions and recession in the region. In brief, European producers have recorded two consecutive years of declining sales to both Europe and the world.

The situation is no different in the recycled/secondary fiber-based cardboard (WLC) segment, which is the subsector of the coated cardboard industry. Estimates suggest that the largest consuming countries such as Germany, Italy, the UK, France and Spain recorded contractions of between 3% and 10% in 2012 in parallel with the overall economic situation in Europe.

The circumstances in Eastern and emerging Europe differ from the rest of Europe. These countries, which include large coated cardboard consumers such as Turkey and Poland, saw the growth recorded in 2011 replaced with a contraction in 2012. In general, sales were stagnant in the region while some of the markets suffered a contraction. According to CEPI data, while there was no growth in WLC sales in Turkey in 2012 when compared to the previous year, sales of folding boxboard (FBB) increased by approximately by 2%.

European manufacturers have been hit by the contracting market, as stated above. The difficulties in the market resulted in P-Cardboard (Cartiera Pirinoli) in Italy going into liquidation, while the second largest coated cardboard player also turned one of its machines off.

As a result of such developments, total production capacity in Europe decreased by 250,000 tonnes. In spite of the decline on the supply side, a deterioration was observed in the supply-demand balance due to a steeper decline on the demand side.

European manufacturers discounted their sales prices, especially in the second half of 2012, leading to a fiercer competitive environment in Eastern European markets, including Turkey.

The exchange rate stands as an important factor directly affecting profitability in exports and competitiveness in imports.

The rise in the Euro/TL exchange rate to 2.50 by the end of 2011 led to a decline in coated cardboard imports in the first quarter of 2012. This, coupled with relatively high demand for packaging in Europe during the same period resulted in a steady trend in Eurozone manufacturers' exports to Turkey. However, the decline in the Euro against the TL, which continued between the first quarter and the end of the summer, not only hit the profitability of exports but also left imported products with a competitive advantage over local production.

The contraction in European coated cardboard demand also played a role in this process and imports gained pace, becoming more competitive as the Euro declined to 2.20 against the TL.

In addition to the challenges presented by the exchange rate impact, the slowdown in Turkey's economic growth also caused a deterioration in the supply-demand balance, leading to a decline in coated cardboard prices, particularly in the summer period. A slight recovery in demand in the last quarter of the year helped prop up sales volumes, though at lower average prices than at the beginning of the year.

There was no change in Turkey's coated cardboard production capacity in 2012.

WLC coated cardboard from the Far East did not have a material share in either Turkish or European markets in 2012. However, the situation in the FBB segment was different, as cardboards originating in China accounted for around 50% of the sales in the segment in Turkey. As detailed in sector reports, a total of 3 million tonnes of new capacity of FBB and 2 million tonnes of WLC to come on-stream in China from 2013 suggests that competition from Far East originating products will increase the competitive pressures on the Turkish market.

In domestic market, competition in the WLC segment was particularly intense against European producers. In addition to the two largest European manufacturers, there were some other producers that entered the Turkish market. The underlying reasons for the issue were recession in Europe and the effective decrease in import prices due to the appreciation of the TL. In particular, some producers with sales problems and in need of cash had a tendency to suppress their prices to levels even lower than the other import prices.

Having recorded decent growth rates successively in 2010 and 2011, the cardboard packaging sector in Turkey underwent a stagnation in 2012. Turkey became the 3rd largest market after Germany and Italy in terms of coated cardboard consumption. According to ECMA (www.ecma.org), production of cardboard boxes in Turkey increased by 6.9% in 2011, while cardboard box sales climbed by 5.6%.

The growth in Turkey's cardboard packaging sector tends to be in line with the country's overall economic growth. The sector growth will continue as the Turkish economy expands. The most important factor to affect supply-demand balance will be the new capacity coming on stream in China over the coming years.

b) The Company's Sales Policy

Also taking into consideration the domestic and international market conditions, the Company's objective is to market around 70-80% of its production to the domestic market and the remaining 20-30% to international markets, although this proportion changes from one year to the next. In choosing international markets, neighbouring countries offering relatively favourable freight charges are assigned a higher priority.

While Bulgaria, Romania, Ukraine, Russia and Spain are the traditional export markets where Kartonsan enjoys a logistics advantage; new markets have been added to the portfolio, including the UK, Egypt and Uzbekistan in 2012. Kartonsan aims to add new countries to its export markets, such as Germany, Belgium and the Netherlands to its existing markets in Western Europe such as Italy and France, with whom the company has established long-lasting trade relations.

Having been one of the main Eurasian suppliers, Kartonsan continued to focus on international marketing and promotional activities in 2012.

Kartonsan adopts the same marketing approach in export markets as in the domestic market; to develop longstanding relationships with printing presses that produce cardboard packaging and to be one of the continuous suppliers. In line with this objective, Kartonsan seeks to provide qualified and fast service and the company makes improvements by determining clients' needs.

Kartonsan aimed to conduct sales under the most favourable shipping conditions in 2012. As a strong participant in international markets, Kartonsan aims to follow global developments through a proactive approach to improve export activities in 2013 and beyond.

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In 2012, Kartonsan continued efforts aimed at increasing customer satisfaction. The most appreciated innovation of the year was to start delivering domestic sales to clients' warehouses, including transportation services.

Sales undertaken through ex-factory and transportation procedures had been organized by customers in the past. As of June 2012, sales have been started to be made through Kartonsan's transportation organization and burdening customers with additional costs. This application, which provides ease of cost and operation, includes door-to-door delivery in each region of Turkey.

c) Investment and Dividend Policies

Most of the Company's investment plans are concerned with the maintenance of the existing plant. However, a quality improvement and capacity increase investment is being planned for the second cardboard production line (KM 2) on which engineering work is currently being carried out. For this purpose, the Board of Directors decided to authorize the General Directorate of the Company to manage the renovation, quality improvement and capacity increase investment in the Company's production plant located at Yaylacık Mahallesi, Karamürsel Caddesi, No:300 41140 Kullar/Başiskele/Kocaeli address, and has been in negotiations with potential contractors with regard to this investment plan.

The investment envisages a 30% increase in the capacity of the relevant machinery equipment; following the completion of the project, the KM2 capacity will have been increased by approximately 50%. The investment is composed of domestic and international procurements and will be completed within two years. With regard to international procurements, a letter of intent issuing 16 million Euros of investment practices was signed with the Austrian company, Andritz AG. In addition, another letter of intent for 3.05 million Euros was signed with a German company, Voith Paper, for the purchase of a new winder.

Having increased its ranking to 5th place in the European region in 2010, Kartonsan's corporate objective is now to climb to 3rd position by 2015 in the region in terms of production capacity.

The Company's dividend policy of is to distribute the minimum amount of the distributable profit, as required by Capital Markets legislation. Nevertheless, the dividend policy is reviewed each year based on the domestic and international economic conditions, as well as investment opportunities and the availability of financing.

In this respect, the dividend distribution proposal from the previous year's profit is featured as a separate section in the Annual Report of the current year, and this is submitted for the information of the shareholders and public prior to the Annual General Meeting.

According to the Company's Articles of Association, A-Type shares are privileged in terms of dividend rights. Moreover, in the event a 'first dividend' is distributed, members of the Board of Directors are also entitled to receive a dividend. Accordingly, of the distributable profit used to calculate the first dividend, 10% of the paid-in capital is deducted, and 5% of the remainder is distributed to A-Type shareholders, and a portion (to be decided by the General Assembly), to the members of the Board of Directors as dividends.

The dividend distribution takes place within the legal term.

Unless a resolution to the contrary is taken at the General Assembly, the Company shall continue to distribute dividends by striking a balance between the possible expectations of the shareholders and the Company's growth strategies.

D) FINANCIAL RESOURCES AND RISK MANAGEMENT POLICIES

The Company does not face any difficulties in financing given its strong equity base. The Company invests its surplus funds in the financial system, in TL and foreign currency deposit accounts. Exchange rate risk is the Company's main financial risk, because its international receivables and foreign currency deposit accounts carry a risk depending on the changes in foreign exchange rates. Given that the Company carries a long FX position, any increase in exchange rates leads to a positive impact, whereas a decrease would adversely affect the Company's financials.

The Company is audited by the Audit Committee and Controllers, and all transactions and activities are checked for compliance with legislation and Company policies. In 2012, the Corporate Governance Committee was formed in accordance with the Corporate Governance Principles, and this Committee has also been assigned the duties of predetermining the risks committee.

As for the audit of the Company's internal control system, independent external auditors carry out controls for the confirmation of ISO 9001, ISO 14001 and OHSAS 18001 Quality Certificates and the senior management is informed of any non-compliance.

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E) FORECASTS REGARDING THE DEVELOPMENT OF THE OPERATIONS

Kartonsan will undertake an investment to provide renovation, quality improvement and capacity increases at its production plant. Through the completion of this project, a 50% increase in the BM2 capacity has been planned. The investment is composed of domestic and international procurements and will be completed in a period of two years. In accordance with international procurements, a letter of intent issuing investment practice of 16 million Euros was signed with the Austrian company, Andritz AG. On the other hand, another letter of intent for 3.05 million Euros was signed with a German company, Voith Paper, for the purchase of a new winder.

Kartonsan will remain a coated cardboard producer that consistently pursues sustainable growth in the Eurasian region by deploying its logistical advantages provided by Turkey's geographical position, its high-quality product mix, and its attention to customer satisfaction-focused service.

F) PRINCIPLES OF CORPORATE GOVERNANCE COMPLIANCE REPORT

1. Corporate Governance Principles Compliance Statement

In the 2012 fiscal year, the Company went to every effort to implement the guidelines of the Corporate Governance Principles, in view of the current shareholding structure and market conditions.

The Company considers the Corporate Governance Principles to be highly beneficial, both to the Company itself and its stakeholders. It is believed that adopting the Corporate Governance Principles will create a number of major opportunities for the Company, such as lower capital costs, the expansion of liquidity and means of financing, the improvement of the Company's image and increased interest from the Company's domestic and international investors. The shareholders will benefit from a more transparent management structure, allowing them to exercise their rights more efficiently and access more information about the Company. These steps will motivate shareholders to uphold the Corporate Governance Principles.

The Company achieved complete compliance with the obligatory principles in line with Capital Markets Legislation. In addition to these, among the non-obligatory corporate governance principles, the Company adopted the regulations that would not have a negative impact on competitive strength, business confidentiality, and provide information to prevent inequalities between shareholders. In the notes below, we have presented the existing principles, compliance with the principles and justifications for principles that were not implemented.

SECTION I - SHAREHOLDERS

2. Investor Relations Unit

The Company's relations with shareholders were initially managed by the Finance Department prior to 2009, when an Investor Relations Unit was established within the Finance Department. Contact details of the mentioned unit are presented below.

The Investor Relations Unit consists of 2 staff, 1 manager and 1 employee.

Name-Surname: Bülent YILMAZ (Investor Relations Unit Manager)

Telephone, Fax, and E-mail:

Tel: 0-212-2732000 (Ext: 302) Fax: 0-212-273 21 64 E-mail: byilmaz@kartonsan.com.tr

Name-Surname: Meltem Uzun (Investor Relations Unit Employee)

Phone, Fax, and E-mail:

Tel: 0-212-2732000 (Ext: 309) Fax: 0-212-273 21 64 E-mail: meltem@kartonsan.com.tr

Address: Prof. Dr. Bülent Tarcan Cad. Pak İş Merk. (Pak Business Center) No: 5 K: 3 Gayrettepe /Beşiktaş /Istanbul

In 2012, The Investor Relations Unit undertook activities to inform shareholders, smoothing the exercise of shareholders' rights, organizing the Annual General Meeting, and issuing statements in accordance with the Public Disclosure Principles.

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In accordance with the Company's Information Policy, the Investor Relations Unit is responsible for providing accurate and complete information on financial and other matters (except for confidential data and trade secrets) as required by legislation, without affecting the value of the capital market instruments issued by the Company, or damaging the equality of opportunity among the shareholders in accordance with the Principles of Corporate Governance.

To this end, the contact details of the Investor Relations Unit were shared with the public through the Company's website, Annual Reports and Borsa Istanbul in order to allow shareholders to obtain information concerning the Company in related matters.

For information requests from the shareholders, telephone, e-mail and fax communication channels have been established.

The Investor Relations Unit received 277 inquiries from investors during 2012 by e-mail and telephone.

The breakdown of inquiries in terms of content is as follows.

Information Requests	**Total**	**% Share**
Requests concerning Reasons behind Increase and Decreases in the Share Price	75	27
Requests for Information concerning the Capital Increase	150	54
Requests for Information concerning the Annual General Meeting	25	9
Requests for Information concerning the Financial Statements	15	5
Other Matters*	12	4
	277	

In 2012, a total of 277 inquiries were made by shareholders addressing the Company, a significant proportion of which concerned net earnings, share price performance, the increase in the registered capital ceiling and the increase in the paid-in capital. The remaining questions concerned dematerialization transactions, share transfers and dividend distribution. In accordance with the Capital Markets Board legislation, such requests cannot be answered when the relevant information has yet to be made public. Information disclosed to the public, on the other hand, is made accessible to shareholders.

The main medium of public information consists of material disclosures sent to the Borsa Istanbul (BIST); these public disclosures are also published on the Company's website.

Relevant Activities on the Organization and Hosting of the Annual General Meeting

With respect to the Annual General Meeting held in 2012, all necessary steps were taken to ensure that the Annual General Meeting was held in compliance with relevant legislation. Accordingly, the Company's Annual General Meeting with respect to the 2011 fiscal year was held on May 2nd, 2012.

The Activities Regarding the Registration of the Shareholding

All Company shares comprise of bearer shares. Hence, shareholding registrations are recorded at the Central Registry Agency (MKK). Within the context of Provisional Article No:6 of the Capital Markets Law, the printing of the new equity shares has been prohibited since 2005, and the dematerialization of the equity shares was initiated.

The Investor Relations Unit continued to undertake the relevant requests and transactions of the shareholders concerning dematerialization. Likewise, shareholders were informed of the utilization of their rights (dividend, attendance at the Annual General Meeting, dematerialization transactions etc.)

The dividend distribution operations were undertaken in accordance with Capital Markets Board and Central Registry Agency regulations. The required declarations and statements on the matter were completed within the legal terms.

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The Activities on Public Disclosure

In accordance with the Corporate Governance Principles, the Company's objective is to provide accurate and complete information on financial and other matters (except for confidential data and trade secrets) as required by legislation without affecting the value of the capital market instruments issued by the Company, or affecting the equality of opportunity among the shareholders in accordance with the Principles of Corporate Governance.

Within the framework of this policy;

In accordance with the Capital Markets Board's Communiqué Series: VIII No:54 e and the guidelines issued as an annex to the said communiqué, the Company ensured that the shareholders, stakeholders and the public would be informed through material disclosures sent to the Borsa Istanbul without compromising the equality of opportunity principle. These material disclosures are also published on the Company's website on the same day.

Requests for information concerning issues which have not yet been publicly disclosed and which could compromise the equality of opportunities among shareholders are not responded to; however, all details of any information on the publicly shared matters are provided to those shareholders who are interested.

Also taking into account the type of the information and legal responsibilities, the Company provides information to shareholders through a variety of means, including the corporate website, material disclosures, annual and quarterly reports, Annual General Meetings, news releases and advertisements published in newspapers and relevant magazines.

The Company's website features up-to-date figures and information concerning the Company, and information and documents concerning investors are published under the menu 'Investor Relations'. The Company undertook every effort to simultaneously publish the declarations and disclosures on the corporate website.

In 2012, the Company made 21 material public disclosures.

3. Exercise of Shareholders' Right to Information

In the Company, each shareholder is entitled to obtain information and carry out reviews. These rights are neither removed nor restricted via the Company's Articles of Association or by the decision of any company department. In line with the right to obtain information, and as required by Capital Markets Legislation, all requests for information from shareholders are responded to, except for matters which are yet to be made public that could compromise the equality of opportunities among shareholders. The Company's Investor Relations Unit is responsible for such informing activities. Decisions which might affect the utilization of shareholder rights are declared on the corporate website in a timely manner.

The Company's Articles of Association does not provide for requests for the appointment of special auditors to examine certain incidents or requesting this from the General Assembly as an individual right. Matters not covered by the Articles of Association are regulated according to the relevant provisions of the Turkish Commercial Code and Capital Markets Legislation. Each year, the Company is subject to the independent audit in accordance with Capital Markets Legislation and also audited in accordance with the Tax Laws. There is no Company decision or Articles of Association provision in the Company that would prohibit shareholders from exercising their right to information (rights which do not contravene the legislation and which would not compromise the equality of opportunity). To this end, the exercise of requesting a special auditor right does not appear to be necessary, considering the targeted benefit and its costs to the Company. However, in the event that a majority of the shareholders submit a written application to the Company, it is always possible to form an agenda item for the General Assembly, and to exercise the right to a special audit, on the condition that it is approved of in the General Assembly.

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4. Annual General Meetings

The Annual General Meeting for the 2011 fiscal year was held on 2nd May, 2012. In the Annual General Meeting, 210,793,496 shares out of a total of 283,701,421 (74.3% of all shares) were represented. Since the Company's Articles of Association does not provide for a special meeting quorum for the Annual General Meeting, the meeting and resolution quorums were determined according to the provisions of the Turkish Commercial Code. The invitation to the meeting was issued to the Borsa Istanbul and also published in two national newspapers. Since the Company does not have registered shares, there was no special invitation form concerning any such shareholders.

The invitation declarations described the location, date and hour of the Annual General Meeting, sample letters of attorney for attorneys that were to participate in the Annual General Meeting, the deadline of the presentation of documents verifying number of shares, financial statements for the year 2011, and the date and location of the disclosure of reports by Board of Directors, Independent Auditors and Controllers. Furthermore, general assembly documents together with the other documents prepared in accordance with the corporate governance principles were declared for the attention of investors in a special section on the corporate website. Such documents were presented to the examination of the shareholders 15 days prior to the Annual General Meeting. There was no participation in the meeting from the media. The shareholders expressed their opinions and requests. Shareholders' questions were responded to by the Head of the Presiding Committee. The shareholders did not submit any suggestions as an agenda item. Shareholders may access the minutes of the Annual General Meeting at the Head Office and via the corporate website. During the Annual General Meeting, information was shared on the donations that were made during the year. No separate agenda item was formed in relation to such donations.

5. Voting Rights and Minority Rights

According to the Company's Articles of Association, there is no regulation providing privileged voting rights.

Practices that cause difficulties concerning the exercise of voting rights in Annual General Meetings of the company are avoided. In this context, each share holds a voting right through which the shareholders vote freely in Annual General Meetings. As a matter of principle for the company, each shareholder, including the shareholders located abroad, is provided the opportunity to vote as easily and conveniently as possible. The company did not receive any applications from shareholders to participate or vote in the Annual General Meeting in this sense.

The company has no affiliates or subsidiaries holding cross-shareholding relationships or any relationship of dominance. It is accepted as a principle for the company that in case of a cross-shareholding situation in the future, the affiliate or subsidiary with the cross-shareholding relationship shall not hold the voting right in the Annual General Meeting unless there is an essential condition, like constituting a quorum. In such a case, the situation would be disclosed in accordance with the laws and regulations.

There is no regulation in the Company's Articles of Association concerning the exercise of minority rights. Matters not covered by the Articles of Association are regulated according to the relevant provisions of the Turkish Commercial Code and Capital Markets Legislation. The company accepts that the related regulations concerning the use of minority rights are sufficient.

6. Dividend Rights

According to the Company's Articles of Association, A-Type shares are privileged in terms of dividend rights. The number of A-Type shares and the calculation of privileged dividends are set out in detail in the Articles of Association.

Of the distributable profit used to calculate the first dividend, 10% of the paid-in capital is deducted and 5% of the remainder is distributed to A-Type shareholders.

Furthermore, in the event that a first dividend is distributed, a certain amount determined by the General Assembly is distributed to the Board members as dividends.

The Company has a clearly defined and consistent dividend policy, which was submitted for the information and approval of shareholders in 2009 during the 2008 fiscal year Annual General Meeting. The dividend policy is featured in the annual report and also made public on the corporate website. The Company's dividend distribution policy is to distribute the minimum amount of the distributable profit as required by Capital Markets Law. Nevertheless, this policy is revised each year by the Board of Directors to take account of domestic and international economic conditions as well as investment opportunities and the availability of financing. Even in the event that the Capital Markets Board were to remove the dividend distribution requirement, in accordance with the implementation of Corporate Governance principles from the year 2010 onwards, the company shall still continue to distribute dividends (unless a resolution to the contrary is taken at the General Assembly) by striking a balance between the possible expectations of shareholders and the growth strategies of the Company. According to the Company's Articles of Association, A Type shares are privileged in terms of dividend rights. Furthermore, in the event that a first dividend is distributed, a certain amount is also distributed to Board members as dividends. Of the distributable profit used to calculate the first dividend, 10% of the paid-in capital is deducted and 5% of the remainder is distributed to A Type shareholders, whereas the amount to be distributed to Board members is decided by the General Assembly. The dividend distribution takes place within legal terms.

Since dividend distributions from future profits depend on market conditions and the financing needs of the company, a fixed distribution rate has not been determined.

It is accepted as a principle that in the event that the Board of Directors tables a request to the General Assembly that a dividend should not be distributed, the reasons behind the request and necessary information concerning how the profit, that would otherwise have been distributed, will be utilized should be provided to the shareholders in the General Assembly. It should also be explained in the Company's official website and featured in the annual report. According to the Company's Articles of Association and legislation, a certain amount of profit should be distributed (at least 5%, according to the Turkish Commercial Code), so therefore it is not possible to submit a request that none of the profit be distributed. The remaining profit after the distribution is kept as extraordinary reserves by the Company and used in the operations.

As far as the dividend distribution policy is concerned, the Company works to a principle of following a balanced policy which balances the interests of shareholders with those of the Company.

7. Transfer of Shares

All the equity shares of the Company comprise of bearer shares and the Articles of Association of the Company does not provide for any restrictive provisions on the share transfer.

SECTION II - PUBLIC DISCLOSURE AND TRANSPARENCY

8. Disclosure Policy

In accordance with Corporate Governance Principles, the Company's objective is to provide timely, accurate and complete information on financial and other matters (except for confidential data and trade secrets), as required by legislation, without affecting the value of the capital market instruments issued, nor damaging the equality of opportunity among shareholders. For this purpose, the Company constituted a disclosure policy and shared it publicly. The disclosure policy of the Company is as follows:

Material Disclosures under the Scope of Disclosure Policy

In accordance with the Capital Markets Board's Communiqué Series: VIII No:54 e and the guidelines issued as annex to the said communiqué, the Company undertakes to inform shareholders, stakeholders and public via material disclosures sent to Borsa Istanbul without compromising the principle of equality of opportunity. These material disclosures are also published on the Company's website on the same day.

Requests for information concerning issues which have not yet been publicly disclosed and which might compromise the equality of opportunities among shareholders are not responded to; however all details of any information on the publicly shared matters are provided to shareholders who are interested.

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Disclosure Policy Instruments

The Company uses a variety of media to provide information to its shareholders, including the corporate website, material disclosures, annual and quarterly reports, Annual General Meetings, and news releases and advertisements published in newspapers and relevant magazines.

The selection of the convenient instrument depends on the nature and importance of the information to be unveiled. However, in all cases, the Company issues a material disclosure to the Borsa Istanbul in line with Capital Markets Board regulations.

The Company website features up-to-date figures and information concerning the Company and information and documents concerning investors are published under the menu 'Investor Relations'. The Investor Relations Unit has been established to facilitate communication between the Company and the shareholders, and this unit is in charge of providing information to stakeholders.

In accordance with the Capital Markets Board regulations, the Board of Directors, the General Manager and Assistant General Managers are able to issue statements to newspapers and magazines on behalf of the Company in order to provide information to the public.

At least two signatures featured in the Company's authorized signatures book must be present in any public announcement sent as a material disclosure to the Borsa Istanbul (via Public Disclosure Platform) on behalf of the Company.

9. The Company Website and Its Content

The Company actively uses its website to issue public disclosures and to inform its shareholders. The Company is committed to keeping its website up-to-date to provide updated information in its website. Announcements as required by regulatory provisions are included in the website in the same form. The Company website is featured on all printed documents of the company, like bills, dispatch notes and letterheads.

The Company's website is accessible at www.kartonsan.com.tr. The website includes an Investor Relations section to ensure that shareholders may access the information they need in a practical manner. Alongside information which is required to be disclosed in accordance with legislation, the Company website also includes trade registry information, current shareholding structure and management, detailed information on the privileged shares, the final version of the Company's Articles of Association, material disclosures, financial and activity reports, registration statements and public offering circulars (if any), agendas of Annual General Meetings, lists of participants and minutes of the meetings, document for voting by proxy, necessary documents in case of stock and proxy collection by tender calling, the Company's dividend policy and disclosure policies. The existing information and documents featured on the Company website is considered to be sufficient. The Company website completely features all the documents and announcements as required by the Capital Markets Board.

The Company website only features the shareholding structure. The Company does not declare information concerning the stake of the ultimate controlling individuals after netting off indirect and mutual affiliate relations. According to the Company's Articles of Association, A-Type shares are privileged in terms of dividend rights. The number of A-Type shares and the calculation for privileged dividend rights are mentioned in detail in the Articles of Association. In addition, it is the Company's preference that it does not announce such information, given that the Company does not hold information on the final individual holding of the shares, and the difficulty in keeping such information up-to-date.

The English version of the Company website is also available. However, information concerning the Investor Relations is only available in Turkish. English versions of the Company's activity reports are also accessible on the Company website as well.

10. Annual Report and Activity Reports

Each year, the detailed annual report is prepared and presented by the Board of Directors of the Company to ensure that stakeholders of the Company kept informed prior to the Annual General Meetings. The annual report is also featured in the corporate website. Furthermore, activity reports are also prepared and announced to the public on a quarterly basis in accordance with the Communiqué Series: XI No: 29.

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The Company pays maximum attention to ensure that activity reports do not contain detailed information concerning the Company's operations, and the Company takes every effort to ensure that the information provided is consistent with the Company's financials and activity results.

The activity reports prepared by the Company also provide information on the activities of Board members and managers outside the Company and declarations of the Board members concerning their independence.

Information on the structure and members of committees formed among Board members are presented in the activity reports. In addition, information concerning the frequency of meetings, activities and working principles of the committees and comments of the Board of Directors on the effectiveness of the committees are not included in the activity reports, since the Company believes that such information is of immaterial importance for shareholders.

Information on the number of Board of Directors meetings within in each year is included in the activity reports. However, information on the list of participants in such meetings is excluded. According to the Company's Articles of Association, the Board of Directors' meeting is held with the participation of a majority of the Board members, and decisions are taken by a majority of the Board members present at the meeting. In this context, information concerning the list of participants to the meetings is considered to be of immaterial importance for shareholders.

Since the foundation of the Company, none of the Board members have been sentenced to any penal procedure or a sanction at a material level. In case of such a situation in the future, it is (within the framework of its importance) accepted that it should be announced publicly as a matter of principle.

It is accepted as a principle that the information will be disclosed to the public in the event of any change in legislation (within the framework of its importance), which would affect the Company operations to an important extent.

Information concerning any significant legal action filed against the Company and possible outcomes are expressed in the footnotes of the financial statements prepared by the Company. These footnotes are also included in the annual reports.

Since its foundation, there have been no instances of conflicts of interest between the Company and any institutions which have provided investment consultancy and rating services to the Company. It is accepted as a principle that in the event of such a situation arising in the future, public disclosures will be issued, provided that such disclosures do not affect the competitiveness of the Company or include any trade secrets of the Company (within the framework of its importance).

Footnotes to the financial statements of the Company include information concerning the Company, its affiliates and subsidiaries. Furthermore, these footnotes are also provided in the Company's annual reports.

The Company's annual reports provide information concerning employee and social benefits, vocational training, any operations undertaken by the Company that may result in social or environmental impacts, and the Company's corporate social responsibility activities.

Every year during the Annual General Meetings, the Company provides information concerning the issues listed in section 1.3.7 of the Corporate Governance Principles of the Company. Therefore, the Company deems the inclusion of such information in the annual report to be unnecessary.

SECTION III - STAKEHOLDERS

11. Informing Stakeholders

The Company undertakes, as a fundamental principle, to ensure that all of its stakeholders exercise their rights, as determined within the framework of legislation, and mutual contracts at the transactions and activities of the Company in a complete and fair manner. In the event that stakeholder rights are not protected by legislation and mutual contracts, it is accepted as a principle that their benefits will be protected by goodwill and fairness within the capabilities of the Company.

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The Company does not have a procedure in cases where stakeholder rights that are protected by legislation and mutual contracts are violated by the activities. Through a fair approach, the Company undertakes, as a fundamental principle, to ensure that all of its stakeholders exercise all of their rights, that are derived from the laws and agreements, in a complete manner. The Company has no compensation policy for its employees.

Protecting stakeholder rights with respect to the Company's activities and informing stakeholders concerning the Company policies and procedures are fundamental principles for the Company. For this purpose, providing information for shareholders, employees, suppliers, customers and public is carried out within the framework of Company disclosure policy.

Communication channels of the Company are accessible for all stakeholders and contact information is available on the Company website. Stakeholders are entitled to communicate with the Corporate Governance Committee and the Audit Committee without any interference from the Company. Stakeholders are also entitled to reach these committees through all communication channels.

Our company's target is to protect the rights of each and every stakeholder independently in the event of possible conflicts of interest between stakeholders.

12. Stakeholders' Participation in the Management

In order to ensure that personnel at different levels of the organization participate in the management, monthly Executive Committee meetings are held in various departments, with the participation of the relevant department executives as well as the senior management, and various issues are discussed in these meetings. The departments implement the decisions taken. Personnel are informed of all activities and processes of the Company linked to procedures that are established according to the ISO 9001 Quality Management Systems. There is no pronouncement in the Company's Articles of Association concerning the participation of personnel in the management.

In order to ensure that personnel at different levels of the organization participate in the management, monthly Executive Committee meetings are held in various departments, with the participation of the relevant department executives as well as the senior management, and various issues are discussed in these meetings. During the aforementioned meetings, requests and expectations of personnel, customers and suppliers are collected and delivered to the top management.

13. Human Resources Policy

The Company's recruitment policy aims to ensure that the right individuals are appointed to the right positions, in view of employee's objectives and personnel competencies, while paying due regard to ensure equal opportunity among employees in same position.

In case of a situation where changes in the management are expected to give rise to administrative disruption; succession and possible scenario projections are utilized in the determination of new manager appointments.

The criteria for the recruitment of personnel are stated in written form and all recruitment decisions comply with these criteria.

The Company plans and implements various training programs to enrich employee's know-how and skills, and support their personnel development. Training sessions for each year are planned in the previous year. Fairness is accepted and implemented as a principle in all rights provided to employees.

The Company's financial reports are provided both on the Company's website and in its annual activity reports. The Company has ensured that it is possible for all stakeholders to access these reports easily and freely. The Company periodically informs its employees of issues concerning pay, career, training and health.

Employees of the Company are informed of all decisions or developments concerning them through e-mail, announcements on the bulletin boards or through informing union representatives. The senior management also takes account of the union's views of such decisions.

The job definitions of Company employees are stated in written form in compliance with ISO 9001 Quality Management Systems. Employee salaries and other benefits are determined on the basis of performance and efficiency. The Company has no plans to oblige its employees to hold shares in the Company.

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The Company takes all precautions to prevent any racial, religious, language or gender discrimination as well as attitudes towards employees that could physically, mentally or emotionally affect employees.

The Company recognizes that the foundation of associations and collective bargaining rights are provided by law. There is an active labor union in the Company's plant through which the Company and the union negotiate on labor contracts.

14. Code of Ethics and Social Responsibility

The board has not prepared a code of ethics for the Company and its employees, which is disclosed to employees and the public. However, there are job definitions for employees and their actions and statements are kept in compliance with well-established business life principles, laws, ethical values, traditions, norms, and principles of environmental protection.

The Company is committed to regulations and ethical codes concerning issues related to the environment, consumer and public health.

The Company holds the ISO 14001 Environmental Management System and OHSAS 18001 Occupational Health and Safety System certificates issued by Bureau Veritas. All necessary action is taken to meet system requirements and to ensure the safety of the employees and respect for the environment.

The Waste Water Treatment Plant avoids the direct discharge of processed water to the environment, and the waste water treatment plant's output values are constantly monitored. Other wastes are delivered to licensed firms, which then recycle or eliminate them, thus contributing to the prevention of environmental pollution.

In cardboard production, the Company uses 90% recycled paper in an effort to contribute to the national economy and the protection of forests.

Every year, noise levels both by night and by day, in and around the factory, are measured; all efforts are taken to ensure the noise level is maintained within the legal limits.

To contribute to minimizing environmental pollution, the Company uses natural gas, generates its own energy and undertakes all necessary emission measures in time.

The Company also undertakes social donations to sport clubs, municipalities, public agencies, associations and foundations in the region where its production plant is located.

The Company formed an internal audit system to tackle all forms of fraud including commission and bribery, and utilizes it effectively.

The Company accepts, supports and respects all human rights, which have international validity.

SECTION IV - BOARD OF DIRECTORS

15. The Structure and Formation of Board of Directors

The Company's Board of Directors manage and represent the Company in accordance with the Company's principles.

The Board of Directors defines the strategic objectives of the Company in the previous year, and determines the human and financial resources necessary to meet these objectives. The Board of Directors periodically determines whether or not these targets have been achieved.

The Company's Board of Directors ensures that all of its activities and transactions comply with legislation, the Company's Articles of Association, in-house arrangements and policies.

16. Working Principles of the Board of Directors

The Board of Directors works to the principle of fulfilling its activities and duties in a transparent, accountable, fair and responsible manner.

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No breakdown of the duties among members of the Board of Directors is available. However, information concerning the committees is accessible in the activity reports and on the Company's website.

The Company established and implements an internal audit system.

With respect to the audit of the Company's internal audit system, independent external auditors carry out checks for the issue of ISO 9001, ISO 14001 and OHSAS 18001 quality certificates, and any inconveniences observed are reported to the senior management of the Company. For problems that are reported through multi-channel communication, the Company seeks solutions and forms policies.

The Company's Board of Directors undertakes to establish risk management mechanisms and periodical audition of internal control mechanisms, while effecting continuous enhancement activities. However, the Company's Board of Directors has declined to provide information on the outputs of the internal control mechanism. Hence, these are not included in activity reports.

A circular of signatures concerning the representation and management of the Company is prepared by the Board of Directors following the Annual General Meeting each year. According to the circular of signatures, no one person has the authority to represent the Company singularly. Significant activities and businesses may only be performed with at least two authorized signatures belonging to different signatory groups. Nobody in the Company holds the unlimited authority to undertake decisions.

The Chairman of the Board of Directors and the General Manager positions are occupied by different individuals, a situation which has not changed for many years.

However, in the event of the same person becoming the Chairman of the Board of Directors and General Manager, it is considered that such a situation would not affect the stakeholder rights. For this reason, the Company believes it is not necessary to inform stakeholders on this issue or provide such information in the annual reports.

The Corporate Governance Committee is formed among members of the Board of Directors of the Company. An Investor Relations Unit also works under this Committee. The Board of Directors of the Company undertakes to remove possible disagreements and resolution of potential conflicts between shareholders.

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

The Audit Committee and the Corporate Governance Committee were formed among Board Members. On the other hand, no Nomination Committee, Predetermining Risk Committee or Remuneration Committee was formed, as the Corporate Governance Committee was assigned to undertake these duties as well. The Board of Directors decided on which members would be in charge of the Audit Committee and the Corporate Governance Committee, and notified the public accordingly.

The Audit Committee consists of 2 members, both of which are Independent Members. Hence, the Chairman of the Committee is also an independent member.

The Corporate Governance Committee consists of 3 members, and is also headed by an Independent Board Member.

The active committees of the Company in 2012 are presented below.

THE AUDIT COMMITTEE

Name - Surname	Title	Term of Office	
Ali Ersin Güredin	Chairman of the Audit Committee	04.05.2012	02.05.2013
Tamer Koçel	Member of the Audit Committee	04.05.2012	02.05.2013

THE CORPORATE GOVERNANCE COMMITTEE

Name - Surname	Title	Term of Office	
Tamer Koçel	Chairman of the Corporate Governance Committee	04.05.2012	02.05.2013
Ünal Bozkurt	Member of the Corporate Governance Committee	04.05.2012	02.05.2013
Mehmet İmregün	Member of the Corporate Governance Committee	04.05.2012	02.05.2013

Neither the Chief Executive Officer/General Manager nor other executive members were assigned to these committees.

As part of the structuring of the Company's Board of Directors, there are two Independent Board Members. Since, at the very least, the chairmen of these formed committees and all members of the Audit Committee are required to be independent members, the principle that 'a board member cannot be appointed to a more than one committee' could not be fulfilled. In practice, one of our Independent Board Members had to be assigned to two different committees.

The rules of procedures of these committees that were formed among the Board members were set out in written form. In accordance with the rules of the procedures, all the committees are permitted to call the managers to a meeting and ask their opinions when deemed necessary to fulfil their duties. On the other hand, the required financial resources for the activities of the committees are provided by the Board of Directors.

The rules of procedures of these committees, which were formed among the Board members, were set out in written form. In accordance with the rules of the procedures, the committees are permitted to receive consultancy services when deemed necessary to fulfil their duties, the costs of which being met by the Company.

These committees that were formed among the Board members are required to record all of their activities in written form. They comply with the written rules of the procedures in doing so. The committees report to the Board of Directors on a regular basis to inform the Board of their activities.

The Corporate Governance Committee consists of 3 members who are appointed from the Board Members. The Chairman of the Committee was elected among independent members. The remaining two members were selected from among members who do not serve as either the Vice chairman of the Board of Directors, or have executive duties.

The committees meet at the Company's Head office at least four times in year, and at least once every three months.

18. Risk Management and Internal Control Mechanism

As part of the structuring of the Company's Board of Directors, the Board of Directors declined to form a separate Predetermining Risk Committee and instead decided that the obligatory duties defined for this committee as per the Corporate Governance Principles should be fulfilled by the Corporate Governance Committee.

Among the above-mentioned principles, the Corporate Governance Committee will fulfil the items that are required to be implemented in line with Capital Markets Board legislation, but will not take any action on matters which are yet to be made obligatory. Since the executive members operate in connection with the mentioned matters, the Board of Directors did not need to form a separate committee.

19. The Strategic Objectives of the Company

The Board of Directors defines the Company's strategic objectives in the previous year, and determines the necessary human and financial resources to meet these objectives. The Board of Directors periodically checks whether or not these targets have been achieved (on a monthly, quarterly and annual basis).

The Board of Directors works to the principle of fulfilling its activities and duties in a transparent, accountable, fair and responsible manner.

The Board of Directors of the Company ensures that all of its activities and transactions comply with the legislation, Company's Articles of Association, in-house arrangements and policies.

20. Financial Remuneration

The remuneration principles of Board members and senior managers are set out in written form, and this is treated as a separate agenda item in the Annual General Meeting to inform shareholders and to offer shareholders the opportunity to share their opinions on the matter. This policy is also declared on the Company's website.

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As part of the structuring of the Board of Directors of the Company, the Board of Directors decided against the establishment of a separate Remuneration Committee and instead decided that the obligatory duties which are defined for this committee in line with the Corporate Governance Principles would be fulfilled by the Corporate Governance Committee.

The Corporate Governance Committee will fulfil the principles whose implementation is required according to Capital Markets Board legislation, while it will not take any action on matters which are yet to be made obligatory.

For the remuneration of the Independent Board Members, stock options or Company performance-based payment plans were taken into account. The Company sought to provide a level of remuneration to Independent Board Members which would not affect their independence.

The Company does not have any practice to lend or supply credit, to provide assurance or guarantee in countenance of the Board Members or Senior Managers. The prohibition of such transactions is accepted as a principle by the Board of Directors.

Information on the remuneration and compensation provided to Board Members is made available in the annual reports and on the Company's website. Although no explanation is provided on an individual basis, at the minimum the differentiation on the Board of Directors - Senior Manager is available.

Compensation Provided to the Board Members

- Attendance Fee

The amount is decided by the General Assembly.

(The Payment of the Attendance Fee)

According to Article 61/4 of the Income Tax Law, the attendance fee paid or benefits provided to the Chairman and the members of the Board of Directors are characterized as wages. As is the case for wages paid to employees, attendance fee payments made to the Chairman and the members of the Board are also subject to tax through withholding deductions.

- Dividend Payment

The dividend payment is decided each year by the General Assembly at the Annual General Meeting in accordance of Article No:25 of the Company's Articles of Association.

Compensation Provided to the Senior Managers

The General Manager and Assistant General Managers, who are also the members of the Board, are entitled to the compensation set out below in addition to compensation connected to their membership of the Board;

- Monthly Salary (Decided annually)
- Bonus at the amount of the monthly salary (paid four times a year)
- Performance Premium (paid once a year at the end of the year)
- Employment Termination Benefits (and amount between 1 and 2.5 times the salary, paid after the 5th, 10th, 15th, 20th and 25th year of service)
- Individual Accident and Health Insurance
- Vehicles and office stocks allocated for their duties.

G) INFORMATION ON THE SECTOR THAT THE COMPANY OPERATES IN, AND ITS POSITION IN THE SECTOR

The Company is active in the coated cardboard sector. Its main raw material for production is scrap paper, while small amount of cellulose and coating chemicals are also used. The majority of the manufactured cardboard is used as packaging material in the food, pharmaceuticals, cosmetics and detergent industries.

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The global sales volume of CEPI member cardboard manufacturers contracted by 3.2% in 2012.

According to CEPI data (www.cepi.org), global sales volumes of the member manufacturers of coated cardboard continued to contract. It is estimated that total sales of CEPI member manufacturers of coated cardboard declined by 3.2% in 2012 following the 3.7% contraction in 2011.

On the other hand, CEPI manufacturers are also observing a declining trend in their total coated cardboard sales to Europe. Having contracted by 5.4% in 2011, sales to European markets declined by a further 3% in 2012 amid continued weak growth conditions and the recession in the region. In short, European producers have suffered two consecutive years of declining sales, to both Europe and to the world.

Kartonsan is Turkey's largest manufacturer of coated cardboard and the fifth largest in Europe, based on its annual production volume. Kartonsan's products are accessible to a wide client base in the Eurasian region. The Company directs approximately 60-80% of its total production to the domestic market, capturing a market share of 30% to 45%, depending on prevailing conditions; thus, this proportion is subject to variation from one year to the next. On the other hand, the import volume of the coated cardboard industry depends heavily on exchange rates and the pricing policy of international coated cardboard players, as the import volume of cardboards varies from one period to the next depending on movements in exchange rates.

H) DEVELOPMENTS ON INVESTMENTS AND INCENTIVE UTILIZATION

Most of the investments planned by the Company plans are concerned with the maintenance of the existing plant. However, a quality improvement and capacity increase investment is being planned for the No:2 cardboard production line (BM 2) on which the engineering work is currently being carried out. For this purpose, the Board of Directors decided to authorize the General Directorate of the Company to manage the renovation, quality improvement and capacity increase investment in Company's production plant located in Yaylacık Mahallesi, Karamürsel Caddesi, No:300 41140 Kullar/Başiskele/Kocaeli address, and is in negotiations with the potential contractor firms with regard to this investment plan.

The investment envisages a 30% increase in the capacity of the relevant machinery equipment and, following completion of the project, the BM2 capacity will have been increased by approximately 50%. The investment is composed of domestic and international procurements and will be completed within a period of two years. With regard to the international procurements, a letter of intent issuing investment practice of Euro 16 million was signed with the Austrian company, Andritz AG. In addition, another letter of intent was signed with a German company, Voith Paper for Euro 3.05 million, regarding the purchase of a new winder. The total amount of the investment and financing methodology was not yet clear as of the report date.

There are no investment incentive certificates that the company is currently taking advantage of. The Company plans to apply for an incentive certificate following the determination of the investment amount regarding the project.

I) THE QUALIFICATIONS OF COMPANY'S PRODUCTION UNITS, CAPACITY UTILIZATION RATES AND COMPARISON WITH THE PREVIOUS YEAR

The Company produces coated cardboard at its factory in Kullar Village, Kocaeli and generates the electricity required by the plant under an autoproducer license. The Company's theoretical annual coated cardboard production capacity is calculated to be approximately 180,000 tonnes (31.12.2011: 180,000 tonnes per annum). Production and sales volumes for 2011 and 2012 are presented below. As of 31.12.2012, the net capacity utilization ratio stood at approximately 92% (31.12.2011: 93% and 30.09.2011: 93%).

The Group's period-end production and sales volumes are as follows.

Production Volume

	2012	2011
Coated Cardboard (Tonnes)	164,817	167,833
Scrap Paper (Tonnes)	98,306	99,560
Electricity Production (x1,000 kWh)	126,438	133,012

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J) INFORMATION CONCERNING SALES

A comparison of the Company's consolidated sales volumes for the years 2012 and 2011 is set out below.

Sales Volume

	2012	2011
Coated Cardboard (Tonnes)	157,852	160,050
Scrap Paper (Tonnes)	98,383	99,065
Electricity Production (x1,000 kWh)	19,095	25,504

Consolidated net sales figure of the company amounted to TL 213,009,879 compared to TL 211,305,096 in 2011.

K) FINANCIAL RATIOS RELATED TO CONSOLIDATED FINANCIAL STATEMENTS

LIQUIDITY RATIOS		**2012**	**2011**
Current Ratio	Current Assets / Short Term Liabilities	6.34	7.07
Acid Test Ratio	(Current Assets - Inventories) / Short Term Liabilities	4.43	4.63
Inventories / Current Assets	Inventories / Current Assets	0.3	0.35
Working Capital	Current Assets (excluding Cash and Liquid) - Short Term Liabilities (Excluding Financial Loans)	52,669,835	61,549,468
Cash Ratio	(Cash and Liquid Assets) / Short Term Liabilities	3.26	3.09
FINANCIAL STRUCTURE RATIOS			
Financial Leverage	(Short Term + Long Term Liabilities) / Total Assets	0.12	0.11
Total Liabilities / Shareholders' Equity		0.14	0.13
Short Term Liabilities / Shareholders' Equity		0.12	0.10
Long Term Liabilities / Shareholders' Equity		0.02	0.02
Fixed Assets / Shareholders' Equity		0.41	0.41
Financial Borrowing / Shareholders' Equity		0	0
PROFITABILITY RATIOS			
Asset Turnover Ratio	Net Sales / Total Assets	0.81	0.92
Gross Profit Margin	Gross Profit /Net Sales	0.2	0.23
Return on Assets	Net Profit / Total Assets	0.11	0.16
Net Profit Margin	Net Profit / Net Sales	0.13	0.17
Profit Before Tax / Net Sales		0.16	0.22
Return on Equity	Net Profit / Shareholders' Equity	0.12	0.18
Operating Margin	Operating Profit / Sales Revenues	0.13	0.18
Earnings Per Share		9.26	13.03
Cash Assets		81,817,078	63,626,032
Financial Liabilities		327,409	62,557
Net Financial Position		81,489,669	63,563,475
Trade Receivables		26,366,378	25,771,032
Other Receivables		2,099,941	118,046
Inventories		48,054,073	50,288,483
Trade Payables		20,032,953	15,216,483
Other Payables		2,423,518	3,135,586

The Company has not taken out any external funding, since it has a robust financial structure.

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L) INFORMATION CONCERNING CHANGES IN THE SENIOR MANAGEMENT AND PRESENT MEMBERS

During the current period, the Assistant General Manager of the Company, Süleyman Kaya, resigned from his position as Assistant General Manager and Mehmet Talu Uray, the General Manager and the Board Member of the Company resigned from all of his duties as of October 1st', 2012.

Information on the Company's General Manager is provided below.

Haluk İBER-Member of the Board of Directors and General Manager

Born in July 15th, 1959, Mr. Iber graduated from the Department of Chemistry Engineering at Istanbul Technical University and holds a Master's degree from the University of Maine. Having started his career in 1987 in Seka A.Ş., he then served in various positions at our Company between 1991 and 2002 before working as an Assistant General Manager between 2002 and October 1st, 2012. At the time, he was appointed as the General Manager of the Company, a position which he has held to this day. Mr. Iber has also continued to serve as a member of the Board of Directors of Kartonsan since 2005.

M) EMPLOYEES AND LABOR MOVEMENTS, COLLECTIVE LABOR AGREEMENTS, RIGHTS AND BENEFITS OF THE PERSONNEL AND WORKERS:

The Company employed 275 individuals, except for personnel of contractor firms, as of 31st December, 2012 (31st December, 2011: 271 individuals)

Workers employed at the Company's factory are members of the Selüloz-İş trade union. The Company signed a collective labor agreement with Selüloz-İş covering the period from 1st September, 2010 and 31st August, 2012 on 11th February, 2011. All rights and benefits outlined in detail in collective labor agreements were offered to workers in their entirety. The collective labor agreement expired as of 31st August, 2012 and the parties entered negotiations on 31st January, 2013 covering the period from 1st September, 2012 and 31st August, 2013.

N) INFORMATION ON DONATIONS DURING THE YEAR:

The Company undertakes contributions to foundations, associations and schools active in the fields of sport, education and culture. The Company completed an education facility within 2012, construction of which started in 2011, and donated the facility to Kocaeli University. Additionally, the Company continued to provide various donations and assistance throughout 2012.

Details of the donations and assistance provided by the Company in 2012 are as follows.

Donations (TL)	**2012**
Donations to Universities, High Schools and Primary Schools	20,949.84
Donations to Foundations and Associations (In the field of education, sport and culture)	7,950.00
Construction Expenditures for an Education Facility for Donation Purposes	1,539,404.38
Other Donations	53,799.60
Total	**1,622,103.82**

O) MAIN COMPONENTS OF THE COMPANY'S INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS:

The Company is audited by the Audit Committee and Controllers, as all transactions and activities are monitored for compliance with legislation and Company policies.

P) INFORMATION CONCERNING RESEARCH AND DEVELOPMENT ACTIVITIES:

The Company does not have a separate Research & Development Department. Activities in this area include testing on product quality and effecting necessary improvements.

Information to shareholders

Stock Exchange
Kartonsan A.Ş. shares are traded on the National Market of the Borsa İstanbul under the symbol, KARTN. Information about the Company's shares is regularly published in the economics sections of daily newspapers and on the internet websites of investment brokerages.

Kartonsan's annual reports and other data can be obtained from the address below and via the corporate website at www.kartonsan.com.tr.

Kartonsan Investor Relations
Prof. Dr. Bülent Tarcan Caddesi No: 5 Pak İş Merkezi Kat: 3
Gayrettepe 34349 İstanbul

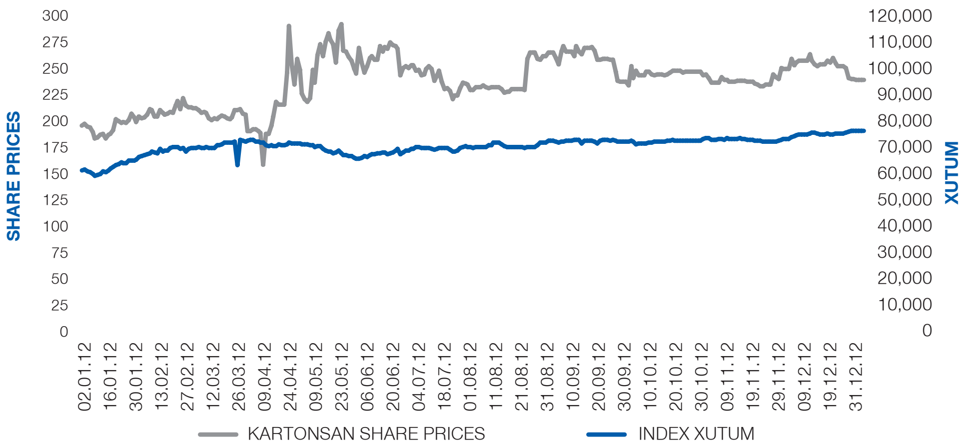
Annual General Meeting
Kartonsan A.Ş.'s Annual General Meeting will be held on 29 March 2013 Friday at 11:00 at the Point Hotel Barbaros Esentepe Yıldız Posta Caddesi No: 29 Şişli /İstanbul

Independent Auditors
Başaran Nas Bağımsız Denetim S.M.M.M. A.Ş.
Süleyman Seba Caddesi BJK Plaza No 48 B Blok Kat 9 34357 Beşiktaş/İstanbul
Tel: (90 212) 326 60 60 Fax: (90 212) 326 60 50

Tax Certification
Başaran NAS Yeminli Mali Müşavirlik ve Bağımsız Denetim Hizmetleri A.Ş.
Süleyman Seba Caddesi BJK Plaza No 48 B Blok Kat 12 34357 Beşiktaş/İstanbul
Tel: (90 212) 326 60 60 Fax: (90 212) 326 60 50

Kartonsan Share Performance in 2012
Kartonsan's year-end balance sheet shows paid-in capital amounting to TL 2,837,014.21. This capital is divided into 283,701,421 shares of which 200 are "Class A" and 283,701,221 are "Class B" shares.

Kartonsan Share Performance in 2012
(in comparison with ISE General Index)



The shares' lowest trading price during the year was TL 157.00 and the highest was TL 287.00. The average trading price for the year 2012 was TL 233.03. The table below shows the lowest and highest trading prices during the year.

Quarter	Lowest (TL)	Highest (TL)
01.01.12-31.03.12	181.00	219.00
01.04.12-30.06.12	157.00	287.00
01.07.12-30.09.12	213.50	267.00
01.10.12-31.12.12	229.50	259.00

Directory

Headquarters
Prof. Dr. Bülent Tarcan Caddesi No: 5
Pak İş Merkezi, Kat: 3
Gayrettepe 34349, İstanbul, Turkey
Phone: (90 212) 273 20 00 (pbx)
Fax: (90 212) 273 21 70 (General)
(90 212) 273 21 60 (Marketing)
(90 212) 273 21 63 (Purchasing)

Factory
Yaylacık Mahallesi, Karamürsel Caddesi, No: 300
41140 Kullar / Başiskele / Kocaeli, Turkey
Phone: (90 262) 349 61 50
Fax: (90 262) 349 33 00

Kartonsan on the internet
www.kartonsan.com.tr

Kartonsan e-mail addresses:

General
kartonsan@kartonsan.com.tr

Orders
orders@kartonsan.com.tr

Marketing
pazarlama@kartonsan.com.tr

Financial
maliisler@kartonsan.com.tr

Purchasing
satinalma@kartonsan.com.tr

Human Resources
insankaynaklari@kartonsan.com.tr

Produced by Tayburn
Tel: (90 212) 227 04 36
www.tayburnkurumsal.com

www.kartonsan.com.tr