

**KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.**

**CONVENIENCE TRANSLATION INTO ENGLISH OF  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD 01 JANUARY - 31 DECEMBER 2010  
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT  
(ORIGINALLY ISSUED IN TURKISH)**



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

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Karsan Otomotiv Sanayii ve Ticaret A.Ş.

*Introduction*

1. We have audited the accompanying consolidated financial statements of Karsan Otomotiv Sanayii ve Ticaret A.Ş. and its subsidiaries (collectively referred as the "Group") which comprise the consolidated balance sheet as of 31 December 2010 and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

2. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the financial reporting standards issued by the Capital Markets Board ("CMB"). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated 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 the auditing standards issued by the CMB. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on 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 group'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 group's internal control. Our independent 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 give a true and fair view of the consolidated financial position of Karsan Otomotiv Sanayii ve Ticaret A.Ş. as of 31 December 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the financial reporting standards issued by the CMB (See Note 2).

*Emphasis of Matter*

Without qualifying our opinion, we draw your attention to the following matter:

5. The Group has accumulated tax losses amounting to TL182,683,736 as of 31 December 2010. The Group management has reflected TL28,632,006 of deferred tax asset for accumulated tax losses amounting to TL143,160,028 on the accompanying financial statements after accounting for a provision amounting to TL39,523,708 for the carried-forward tax losses which the Group will not be able to utilise according to the five-year projections to determine whether it is probable to utilise these carried-forward tax losses before their expiration dates. There is uncertainty about the utilisation of the Group's accumulated tax losses mentioned and it depends on the realisation of the assumptions in the five year projections.

*Additional paragraph for convenience translation into English*

6. As described in Note 2 to the consolidated financial statements (defined as the "CMB Financial Reporting Standards") the accounting principles 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 01 January - 31 December 2005 and presentation of basic financial statements and the notes to them. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position and results of operations in accordance with IFRS.

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

**ORIGINAL TURKISH VERSION SIGNED BY**

Baki Erdal, SMMM  
Partner

Istanbul, 08 April 2011

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 01 JANUARY-31 DECEMBER 2010

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# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2010 AND 31 DECEMBER 2009

(Amounts expressed in Turkish lira ("TL") unless otherwise stated)

	Notes	31 December 2010	31 December 2009
<b>ASSETS</b>			
<b>Current Assets</b>		<b>155,136,723</b>	<b>109,747,187</b>
Cash and Cash Equivalents	5	1,235,155	670,678
Trade Receivables			
- Trade receivables from related parties	26	809,022	-
- Other trade receivables	8	48,573,230	28,262,631
Other Receivables			
- Other receivables from related parties	26	476,834	1,148,188
Inventories	10	70,255,321	63,682,792
Other Current Assets	16	33,787,161	15,982,898
<b>Non-Current assets</b>		<b>260,365,576</b>	<b>200,350,563</b>
Financial Investments	6	2,114	2,114
Property, Plant and Equipment	11	217,539,890	172,904,337
Intangible Assets	12	22,513,405	9,172,829
Deferred Tax Assets	24	17,423,629	14,034,880
Other Non-Current assets	16	2,886,538	4,236,403
<b>TOTAL ASSETS</b>		<b>415,502,299</b>	<b>310,097,750</b>

Financial statements were approved and authorised for issue in the meeting of Board of Directors dated 08 April 2011. In addition, financial statements for the year 2010 are subject to approval of shareholders of the Company in the General Assembly.

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

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2010 AND 31 DECEMBER 2009

(Amounts expressed in Turkish lira ("TL") unless otherwise stated)

	Notes	31 December 2010	31 December 2009
<b>LIABILITIES</b>			
<b>Current Liabilities</b>		<b>242,736,667</b>	<b>172,641,666</b>
Financial Liabilities			
- Financial liabilities	7	46,898,298	59,755,283
- Factoring payables	7	10,272,122	20,000,000
Trade Payables			
- Trade payables to related parties	26	56,794,450	13,528,326
- Other trade payables	8	108,520,823	68,313,398
Other Payables			
- Other payables to related parties	26	2,158	2,158
Provisions	9	5,447,661	5,922,842
Other Current Liabilities	16	14,801,155	5,119,659
<b>Non-Current Liabilities</b>		<b>61,926,160</b>	<b>22,732,428</b>
Financial Liabilities	7	55,953,257	19,639,091
Provisions for Benefits to Personnel	15	4,934,125	2,466,732
Other Non-Current Liabilities	16	1,038,778	626,605
<b>EQUITY</b>		<b>110,839,472</b>	<b>114,723,656</b>
<b>Equity attributable to equity holders of the parent</b>		<b>119,952,007</b>	<b>120,654,981</b>
Paid-in Capital	17	195,552,567	150,000,000
Paid-in Capital Inflation Adjustment Differences	17	22,585,778	22,585,778
Share Premium	17	5,864,260	5,864,260
Revaluation Fund	11	58,803,624	56,765,264
Restricted Reserves	17	1,031,613	1,029,833
Additional contribution to equity due to combination	3, 17	(12,402,788)	-
Accumulated Losses	17	(116,302,541)	(64,536,361)
Net Loss for the Period		(35,180,506)	(51,053,793)
<b>Minority Interests</b>		<b>(9,112,535)</b>	<b>(5,931,325)</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>415,502,299</b>	<b>310,097,750</b>
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The accompanying notes form an integral part of these consolidated interim financial statements.

**KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE PERIODS 01 JANUARY - 31 DECEMBER 2010 AND 2009**

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated)

	Notes	01 January - 31 December 2010	01 January - 31 December 2009
<b>CONTINUING OPERATIONS</b>			
Sales Income	18	553,947,257	292,345,841
Cost of Sales	18	(550,511,021)	(295,315,015)
<b>GROSS INCOME/(LOSS)</b>		<b>3,436,236</b>	<b>(2,969,174)</b>
Marketing, Sales and Distribution Expenses (-)	19	(15,046,146)	(10,552,531)
General Administrative Expenses (-)	19	(18,192,770)	(14,052,223)
Research and Development Expenses (-)	19	(685,620)	-
Other Operating Income	21	3,938,923	1,821,511
Other Operating Expenses (-)	21	(2,417,168)	(136,743)
<b>OPERATING LOSS</b>		<b>(28,966,545)</b>	<b>(25,889,160)</b>
Financial Income	22	29,450,978	24,571,518
Financial Expenses (-)	23	(45,958,163)	(63,365,696)
<b>CONTINUING OPERATIONS LOSS BEFORE TAX</b>		<b>(45,473,730)</b>	<b>(64,683,338)</b>
Continuing Operations Tax (Expense)/Income			
- Tax Expense for the Period		(311,217)	-
- Deferred Tax Income	24	4,702,579	7,589,758
<b>LOSS FOR THE PERIOD</b>		<b>(41,082,368)</b>	<b>(57,093,580)</b>
<b>Other Comprehensive Income</b>			
- Changes in revaluation fund for property, plant and equipment		-	56,765,264
<b>TOTAL COMPREHENSIVE (LOSS)/INCOME</b>		<b>(41,082,368)</b>	<b>(328,316)</b>
<b>Distribution of Loss for the Period</b>		<b>(41,082,368)</b>	<b>(57,093,580)</b>
Minority Interests		(5,901,862)	(6,039,787)
Shares of Parent Company		(35,180,506)	(51,053,793)
<b>Distribution of Total Comprehensive (Loss)/Income</b>		<b>(41,082,368)</b>	<b>(328,316)</b>
Minority Interests		(5,901,862)	(6,039,787)
Shares of Parent Company		(35,180,506)	5,711,471
<b>Loss per share</b>	<b>25</b>	<b>(0,00224)</b>	<b>(0,00483)</b>

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

# KARSAN OTOMOTİV SANAYİ VE TİCARET A.Ş.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIODS 01 JANUARY – 31 DECEMBER 2010 AND 2009

(Amounts are expressed in Turkish lira (“TL”) unless otherwise stated)

	Paid-in capital	Inflation adjustment to share capital	Additional contribution to equity due to combination	Share premium	Revaluation fund	Restricted reserves	Accumulated losses	Current period income/(loss)	Shares of Parent Company	Minority interests	Total equity
<b>01 January 2009</b>	100,000,000	22,585,778	-	5,756,644	-	1,029,833	(21,173,711)	(43,386,304)	64,812,240	-	64,812,240
Transfer to accumulated losses	-	-	-	-	-	-	(43,386,304)	43,386,304	-	-	-
Additional contribution to equity	50,000,000	-	-	-	-	-	-	-	50,000,000	-	50,000,000
Share Premium Increase	-	-	-	107,616	-	-	-	-	107,616	-	107,616
Consolidation of Karsan Pazarlama	-	-	-	-	-	-	23,654	-	23,654	108,462	132,116
Total comprehensive income/ (loss) for the period	-	-	-	-	56,765,264	-	-	(51,053,793)	5,711,471	(6,039,787)	(328,316)
<b>31 December 2009</b>	<b>150,000,000</b>	<b>22,585,778</b>	<b>-</b>	<b>5,864,260</b>	<b>56,765,264</b>	<b>1,029,833</b>	<b>(64,536,361)</b>	<b>(51,053,793)</b>	<b>120,654,981</b>	<b>(5,931,325)</b>	<b>114,723,656</b>
<b>01 January 2010</b>	<b>150,000,000</b>	<b>22,585,778</b>	<b>-</b>	<b>5,864,260</b>	<b>56,765,264</b>	<b>1,029,833</b>	<b>(64,536,361)</b>	<b>(51,053,793)</b>	<b>120,654,981</b>	<b>(5,931,325)</b>	<b>114,723,656</b>
Transfer to accumulated losses	-	-	-	-	-	-	(51,053,793)	51,053,793	-	-	-
Sale of Plant Property and Equipment (Note 11)	-	-	-	-	(353,522)	-	353,522	-	-	-	-
Additional contribution to equity due to combination (Note 3)	45,552,567	-	5,305,140	-	-	1,780	(1,665,143)	-	49,194,344	-	49,194,344
Additional contribution to equity related to combination (Note 3)	-	-	(17,707,928)	-	2,391,882	-	599,234	-	(14,716,812)	2,720,652	(11,996,160)
Total comprehensive income/ (loss) for the period	-	-	-	-	-	-	-	(35,180,506)	(35,180,506)	(5,901,862)	(41,082,368)
<b>31 December 2010</b>	<b>195,552,567</b>	<b>22,585,778</b>	<b>(12,402,788)</b>	<b>5,864,260</b>	<b>58,803,624</b>	<b>1,031,613</b>	<b>(116,302,541)</b>	<b>(35,180,506)</b>	<b>119,952,007</b>	<b>(9,112,535)</b>	<b>110,839,472</b>

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



# KARSAN OTOMOTİV SANAYİ VE TİCARET A.Ş.

## CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE PERIODS 01 JANUARY - 31 DECEMBER 2010 AND 2009

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated)

	Notes	01 January - 31 December 2010	01 January - 31 December 2009
<b>Operating activities:</b>			
Net loss before tax		(45,473,730)	(64,683,338)
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Amortisation	11	19,184,230	15,396,438
Depreciation	12	2,180,208	1,670,047
Provision for employment termination benefit	15	1,971,461	2,397,859
Gain from sales of tangible /intangible assets	21	1,593	(1,475)
Interest expenses-net	22, 23	14,815,546	39,510,661
Inventory impairments	10	1,310,043	1,439,085
Allowances for doubtful receivables	8	1,881,329	27,839
Unused vacation liability	16	270,577	1,025,475
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>(3,858,743)</b>	<b>(3,217,409)</b>
Trade receivables	8	(16,986,558)	30,666,870
Inventories	10	(4,593,564)	94,248,666
Due from related parties	26	1,028,431	(249,903)
Other current assets	16	(17,068,280)	7,760,496
Other non-current assets	16	1,349,921	(333)
Trade payables	8	37,551,033	13,675,642
Due to related parties	26	42,427,321	(3,522,321)
Provisions and other liabilities	8, 16	7,720,536	(4,206,782)
Employment termination benefits paid	15	(381,993)	(1,800,180)
Income taxes paid	24	(311,217)	-
Other non-current liabilities	16	412,173	626,605
<b>Net cash provided by operating activities</b>		<b>47,289,060</b>	<b>133,981,351</b>
<b>Investing activities:</b>			
Purchase of property, plant and equipment	11	(40,084,028)	(22,560,056)
Purchase of intangible assets	12	(218,023)	(11,699)
Proceeds on sale of property, plant and equipment		992,140	29,978
Purchase of associate		1,322,236	-
<b>Net cash used in by investing activities</b>		<b>(37,987,675)</b>	<b>(22,541,777)</b>
<b>Financing activities:</b>			
Change in borrowings		5,965,243	(128,207,625)
Interest received		4,332,946	2,903,323
Interest paid		(19,035,097)	(42,413,984)
Consolidation of Karsan Pazarlama		-	132,116
Capital increase		-	50,000,000
Share premium increase		-	107,616
<b>Net cash used in financing activities</b>		<b>(8,736,908)</b>	<b>(117,478,554)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>564,477</b>	<b>(6,038,980)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>670,678</b>	<b>6,709,658</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>1,235,155</b>	<b>670,678</b>

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

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 1 – ORGANISATION AND NATURE OF OPERATIONS

Trade name: Karsan Otomotiv Sanayii ve Ticaret A.Ş. ("Karsan" or "The Company")

Head office: Akçalar Sanayi Bölgesi, Akçalar 16225 Nilüfer / Bursa

Related Group: Kıraça Holding A.Ş.

Registered Stock Exchange: Istanbul Stock Exchange National Market

The Company has been established to build any kind of vehicle assembly and bodywork facilities, purchasing and/or participating in the already established facilities, importing vehicles for bodywork manufacturing, and producing and selling any kind of vehicle bodywork in Turkey. The activities of the Company are to produce, import and export motor vehicles to automotive brands. Moreover, the Company provides industrial service to automotive companies.

At the meeting of Board of Directors of Karsan held on 06 October 2009, it was decided to combine the Company with Kare Dış Ticaret Anonim Şirketi ("Kare") in accordance with articles 146-151 and 451 of the Turkish Commercial Code ("TCC"), articles 18-20 of the Corporate Tax Law and provisions of the Capital Markets Board ("CMB") legislation based on financial statements dated 30 September 2009 in this context, to implement the combination by taking over all assets and liabilities of Kare Dış Ticaret A.Ş. by Karsan without liquidation within Karsan and it was decided to begin the necessary legal procedures for stated corporate combination. Combination of the Company with Kare Dış Ticaret A.Ş. by taking over Kare Dış Ticaret A.Ş. in accordance with Article 451 of the TCC was discussed and approved at CMB Meeting No. 3/72, dated 12 February 2010. The general meeting of shareholders to approve combination and association agreement was held on 29 March 2010. Nominal value shares to be issued, amounting to TL45,552,567 arising from the increase of issued capital from TL150,000,000 to TL195,552,567 due to combination of the Company with Kare Dış Ticaret A.Ş. by taking over Kare Dış Ticaret A.Ş. in accordance with CMB Law, Article 451 of the TCC and articles 18 and 20 provisions of the Corporate Tax Law were registered and official document regarding the registry, No. 8/72 were provided by the CMB on 05 April 2010 (Note 3).

### Subsidiaries

Subsidiaries of Company which are subject to consolidation as of 31 December 2010 are stated below:

Company name	Operating activity	Ownership interest of Company	
		31 December 2010	31 December 2009
Karsan Otomotiv Sanayi Mamulleri Pazarlama A.Ş. ("Karsan Pazarlama") (*)	Distributor	25%	25%
Kırpart Otomotiv Parçaları San. ve Tic. A.Ş. ("Kırpart") (**)	Production, Sales, Marketing and Distribution	83%	-
Karsan USA LLC (***)	Sales and Marketing	100%	-

The Companies above will be referred to as "the Group".

The accompanying consolidated financial statements are prepared by consolidating financial statements of Karsan with subsidiaries Karsan Pazarlama and Kırpart.

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

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### NOTE 1 – ORGANISATION AND NATURE OF OPERATIONS (Continued)

- (\*) On 25 June 2009, in accordance with the announcement to the Istanbul Stock Exchange; within the context of Board of Directors Meeting on 24 June 2009, the Company participated with a share of 25% to Karsan Otomotiv Sanayi Mamulleri Pazarlama A.Ş., distributor of Karsan J9 minibus and Hyundai HD Series trucks, by taking delivery of B group privileged stocks free of charge from Kırça Holding A.Ş. in accordance with the valuation report prepared by İş Yatırım Menkul Değerler A.Ş.
- (\*\*) Kırpart was established in Turkey on 21 October 1998. Kırpart's main operating activities are manufacturing, selling, marketing and distribution of various parts for automotive and other industry companies and their spare part market. 83% of shares of Kırpart which is one of the companies under the control of Kırça Holding A.Ş. was transferred to Kare which is also a company under the control of Kırça Holding A.Ş. on 28 December 2008 for an amount of TL28,000,000. Kırpart became a subsidiary of Karsan as a result of the combination of Kare and Karsan on 06 April 2010.
- (\*\*\*) Karsan founded a company based in New York, US, with the trade name Karsan USA LLC that is wholly owned by the Company and does not require a capital transfer during foundation process, in order to maintain the regular processes with local authorities, regarding the project of a new taxi model designed to be sold in the US. There was no capital transfer to the Company and there is no effect on the financial position of the Group.

### NOTE 2 -BASIS OF PRESENTATION OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND ACCOUNTING POLICIES APPLIED

#### 2.1 Basis of Presentation

##### 2.1.1 Financial reporting standards

The consolidated financial statements of the Group have been prepared in accordance with the accounting and reporting principles published by the 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 Serial XI No. 29, "Principles of Financial Reporting in Capital Markets" ("the Communiqué"). 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.

With the decision taken on 17 March 2005, the CMB announced that, effective from 01 January 2005, the application of inflation accounting is no longer required for companies operating in Turkey and preparing their financial statements in accordance with CMB Financial Reporting Standards. Accordingly, IAS 29, "Financial Reporting in Hyperinflationary Economies", issued by the IASB, has not been applied in the financial statements for the accounting year commencing from 01 January 2005.

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

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### NOTE 2 -BASIS OF PRESENTATION OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND ACCOUNTING POLICIES APPLIED (Continued)

#### 2.1.2 Financial reporting standards (Continued)

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 Serial XI No. 29 and related promulgations to this Communiqué as issued by the CMB, in accordance with the 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 recommended by the CMB, with the announcement dated 2008/16, 2008/18, 2009/2 and 2009/4, including the compulsory disclosures.

The Group maintains its books of account and prepares its statutory financial statements in accordance with the TCC, tax legislation and the Uniform Chart of Accounts issued by the Ministry of Finance. These 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 are prepared in Turkish lira ("TL") based on the historical cost convention except for the financial assets and liabilities which are expressed with their fair values.

#### 2.1.3 Consolidation Principles

The consolidated financial statements include the accounts of the parent company, Karsan Otomotiv Sanayii ve Ticaret A.Ş. and its subsidiaries on the basis set out in sections below. The financial statements of the companies included in the scope of consolidation have been prepared as of the date of the consolidated financial statements and have been prepared in accordance with CMB Financial Reporting Standards stated in Note 2 by applying uniform accounting policies and presentation. The results of operations of Subsidiaries are included or excluded from their effective dates of acquisition or disposal respectively.

#### *Subsidiaries*

The table below sets out all subsidiaries and demonstrates the proportion of ownership interest as of 31 December 2010 and 2009:

<u>Subsidiary</u>	<u>31 December 2010</u>	<u>31 December 2009</u>
Karsan Pazarlama	25%	25%
Kırpart	83%	-

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

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### NOTE 2 -BASIS OF PRESENTATION OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND ACCOUNTING POLICIES APPLIED (Continued)

#### 2.1.3 Consolidation Principles (Continued)

- a) Subsidiaries refer to the companies that the Group has the power to control the financial and operating policies for the benefits of the Group, via either (a) owing the majority voting right by having more than 50% of the subsidiary's shares directly and/or indirectly or (b) not having the majority voting right 50%, however by controlling financial or operating policies.

The balance sheets and statements of income of the subsidiaries are consolidated on line-by-line basis and the carrying value of the investment held by the Group and its subsidiary is eliminated against the related equity. Intercompany transactions and balances between the Group and its subsidiary are eliminated during the consolidation. The cost of, and the dividends arising from, shares held by the Group in its subsidiary are eliminated from shareholders' equity and income for the period, respectively.

- b) Subsidiaries are consolidated from the date on which the control is transferred to the Group and are no longer consolidated from the date that the control ceases.

The shares of the minority shareholders in subsidiary's net assets and operating results are presented as minority shares and minority income/loss, in consolidated balance sheet and income statement, respectively.

#### 2.1.4 Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

#### 2.1.5 Comparative Information and Restatement of Prior Period Financial Statements

The consolidated financial statements of the Group include comparative financial information to enable determination of the trends in the financial position and performance. The Group has prepared the consolidated balance sheet as of 31 December 2010 comparatively with the balance sheet at 31 December 2009, and consolidated statement of comprehensive income, consolidated statement of cash flow and consolidated statement of change in equity for the period between 01 January and 31 December 2010 compared to the period between 01 January and 31 December 2009.

#### 2.1.6 Going concern

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

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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### NOTE 2 -BASIS OF PRESENTATION OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND ACCOUNTING POLICIES APPLIED (Continued)

#### 2.1.7 Changes in International Financial Reporting Standards

*a) New and amended standards effective in 2010 relevant to the Group's financial statements:*

- \* IAS 1 (Amendment), "Presentation of Financial Statements" (effective from 01 January 2010);
- \* IAS 36 (Amendment), "Impairment of Assets" (effective from 01 January 2009);
- \* IAS 38 (Amendment), "Intangible Assets" (effective from 01 July 2009);

*b) Interpretations and amendments to existing standards effective on and after 01 January 2010 and not relevant for the Group's operations:*

- \* IFRS 9 (Revised), "Financial instruments" (effective from 01 July 2009)
- \* IFRIC 16, "Hedges of a net investment in a foreign operation" (effective from 01 July 2009)
- \* IFRS 1 (Revised), "First-time Adoption of International Financial Reporting Standards"
- \* IFRS 3 (Revised), "Business combinations" (effective for reporting periods beginning after 01 July 2009)
- \* IFRIC 17 (Revised), "Distributions of Non-cash Assets to Owners" (effective for reporting periods beginning on and after 01 July 2009)
- \* IAS 24 (Revised), "Related party disclosures" (effective on or after 01 July 2011)
- \* IAS 27 (Revised), "Consolidated and separate financial statements" (effective for reporting periods beginning on and after 01 July 2009)
- \* IAS 32 (Revised), "IAS 32 (Amendment), "Financial instruments: Presentation" (effective for reporting periods beginning on and after 01 February 2010)
- \* IFRIC 14 (Revised), "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective for reporting periods beginning on and after 01 January 2011)

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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### NOTE 2 -BASIS OF PRESENTATION OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND ACCOUNTING POLICIES APPLIED (Continued)

#### 2.1.7 Changes in International Financial Reporting Standards (Continued)

c) *Standards, amendments and interpretations for existing standards that are not yet effective and have not been adopted early by the Group:*

- \* IFRS 9, "Financial Instruments" (effective for reporting periods beginning on and after 01 January 2013)
- \* IAS 24 (Revised), "Related Party Disclosures" (effective for reporting periods beginning on and after 01 January 2011)
- \* IFRIC 19, "Extinguishing financial liabilities with equity instruments"

#### 2.1.8 Changes in Accounting Estimates and Errors

If changes in accounting estimates are for only one period, changes are applied on the current period but if the changes effect the following periods, changes are applied both on the current and following periods prospectively. Material errors are corrected retrospectively, by restating the prior period financial statements.

#### 2.2 Summary of Significant Accounting Policies

Significant accounting policies considered during the preparation of consolidated financial statements are summarised below:

##### *Revenue*

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, and other similar allowances.

##### *Sale of goods*

Revenue from sale of goods is recognised when all the following conditions are satisfied:

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

Revenue equals to the amount of cash and cash equivalents received in cases where cash and cash equivalents are received for sales. However, Group makes high portion of its sales on-term and fair value of the sales amount is determined by net present value of receivables. In order to determine the net present value of the receivables, the interest rate, which discounts nominal value of the sales amount to cash sales price of the related goods or services, is used. The difference between the nominal value of the sales amount and its fair value is reflected to the related periods as interest income.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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### NOTE 2 -BASIS OF PRESENTATION OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND ACCOUNTING POLICIES APPLIED (Continued)

#### 2.2 Summary of Significant Accounting Policies (Continued)

##### *Interest revenue*

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash in hand, bank deposits and highly liquid assets, whose maturity at the time of purchase is less than three months.

##### *Trade receivables and provision for doubtful receivables*

Trade receivables that are created by the Group by way of providing goods or services directly to a debtor are carried at amortised cost. Trade receivables, net of unearned financial income, are measured at amortised cost, using the effective interest rate method, less the unearned financial income. Short duration receivables with no stated interest rate are measured at the original invoice amount unless the effect of imputing interest is significant.

A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. Additionally, the Group impairs the receivables for which there are no guarantees or special agreements and which are overdue for more than one year. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

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

##### *Inventories*

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a weighted average basis. 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.

Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale.



# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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### NOTE 2 -BASIS OF PRESENTATION OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND ACCOUNTING POLICIES APPLIED (Continued)

#### 2.2 Summary of Significant Accounting Policies (Continued)

##### *Property, Plant and Equipment*

Property, plant and equipment, excluding land, machinery and equipment acquired before 1 January 2005 are carried at indexed historical cost based on the effects of inflation as of 31 December 2004; acquisitions after 01 January 2005 are carried at historical cost and are presented after depreciation and impairment loss. As a result of revaluation of land, machinery and equipment, at 31 December 2010 re-valued amounts are reflected to the financial statements.

Depreciation is charged so as to write off the cost or valuation of assets, using the straight-line method. Land is not depreciated as it is deemed to have an indefinite life. The depreciation periods for property, plant and equipment, which approximate the useful lives of such assets, are as follows:

Buildings and land improvements	6-50 years
Machinery and equipments	4-40 years
Motor vehicles	4 years
Furniture and fixtures	3-15 years

Expected useful lives, residual value and depreciation method have been considered every year to determine prospectively possible effects of the changes arise from estimations.

Profit or loss realised from disposal of tangible assets or retirement of tangible assets has been included to the income statement after determined as difference between sales revenue and book value of the asset.

##### Revaluation Method

The Group's land, machinery and equipment have been re-valued by an independent expertise firm in March 2009. In the revaluation performed;

- \* All characteristics like; land location, local formation style, substructure and access opportunities, front line to street and avenue, area and location that may affect the value, have been taken into account, detailed market research has been done locally and the economical conditions that have arisen previously have been considered as well.
- \* Machinery and equipment's physical condition, maintenance and performance that may affect the value have been considered and detailed market research has been done, and the country's economical conditions that have arisen previously have been considered as well.
- \* Revaluation reports have been prepared according to related CMB regulatory provisions.
- \* Revaluation has been stated in financial statements as of 31 March 2009 firstly.
- \* Revaluation reports have been prepared by an independent expertise firm which gives service according to CMB regulatory provisions.
- \* Cost approach in valuation, precedent comparison, fair market value methodology and assumptions and up-to-date market conditions have been taken into consideration.
- \* Revaluation fund net of deferred tax are shown in equity.
- \* There is no restriction in distribution of increase in revaluation fund to shareholders.

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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### NOTE 2 -BASIS OF PRESENTATION OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND ACCOUNTING POLICIES APPLIED (Continued)

#### 2.2 Summary of Significant Accounting Policies (Continued)

##### *Property, Plant and Equipment (Continued)*

The re-valued amount is calculated by deducting the total of accumulated depreciation and impairment that have occurred in the periods after net realisable value determined in revaluation date. Revaluations are performed regularly, by ensuring that there are not any significant differences between net realisable value as of balance sheet date and net book value.

Increase in value of aforementioned land, machinery and equipment as a result of revaluation is booked in revaluation fund in equity. Increase in value as a result of revaluation is booked in income statement, in case of impairment was represented in income statement previously. Decrease in book value arisen from the aforementioned revaluation process is booked in income statement in case the revaluation exceeds the balance already included in revaluation fund related to previous revaluation of the aforementioned asset.

When a revaluated tangible asset is disposed, revaluation fund related with tangible asset is transferred to retained earnings.

##### *Intangible Assets*

Intangible assets acquired before 01 January 2005 are carried at indexed historical cost in accordance with IAS 29, acquisitions in and after 2005 are carried at historical cost and are presented after amortisation and impairment loss. Purchased intangible assets, primarily software, are amortised over five years using the straight-line method. In accordance with IAS 38, research costs are recognised as expense when incurred.

Development costs for future products and other internally generated intangible assets are capitalised at cost, provided manufacture of the products is likely to bring the Group an economic benefit. If the criteria for recognition as assets are not met, the expenses are recognised in the income statement in the year in which they are incurred. Cost includes all costs directly attributable to the development process as well as appropriate portions of development-related overheads. The costs are amortised in ten years using the straight-line method from the start of production over the expected life cycle of the models or components developed units.

##### *Impairment of Assets*

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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### NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND ACCOUNTING POLICIES APPLIED (Continued)

#### 2.2 Summary of Significant Accounting Policies (Continued)

##### *Impairment of Assets (Continued)*

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

##### *Borrowing Costs*

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

##### *Borrowings*

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method. Any difference between proceeds, net of transaction costs, and the redemption value is recognised in the income statement as financial expense over the period of the borrowings.

##### *Foreign Currency Transactions*

Income and expenses arising in foreign currencies have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated at the exchange rates prevailing at the balance sheet dates. Exchange gains or losses arising from settlement and translation of foreign currency items have been included in the consolidated comprehensive income statement.

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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### NOTE 2 -BASIS OF PRESENTATION OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND ACCOUNTING POLICIES APPLIED (Continued)

#### 2.2 Summary of Significant Accounting Policies (Continued)

##### *Earnings/Loss Per Share*

Earnings per share stated on statements of income are calculated by dividing net profit by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can raise their share capital by distributing "bonus shares" to shareholders from retained earnings. In computing earnings per share, such "bonus share" distributions are assessed as issued shares. Accordingly, the retrospective effect for those share distributions is taken into consideration in determining the weighted-average number of shares outstanding used in this computation (Note 25).

##### *Events After Balance Sheet Date*

Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorised for issue.

The Group records adjusting events after the balance sheet date and disclose non-adjusting events after the balance sheet date on the accompanying financial statements.

##### *Provisions, Contingent Liabilities and Contingent Assets*

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

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

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. Contingent assets are not recognised in the consolidated financial statements since this may result in the recognition of income that may never be realised. A contingent asset is disclosed where an inflow of economic benefit is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the consolidated financial statements of the period in which the change occurs.

Provisions of warranty costs are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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### NOTE 2 -BASIS OF PRESENTATION OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND ACCOUNTING POLICIES APPLIED (Continued)

#### 2.2 Summary of Significant Accounting Policies (Continued)

##### *Related Parties*

For the purpose of these financial statements, shareholders, key management personnel and members of the Board, their family members and companies, subsidiaries and partnerships managed or controlled by them are considered and referred to as related parties (Notes 26).

##### *Segmental Information*

A reportable segment is a business segment or a geographical segment identified based on the foregoing definitions for which segment information is required to be disclosed. A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

A business segment or geographical segment should be identified as a reportable segment if a majority of its revenue is earned from sales to external customers and if its revenue from sales to external customers and from transactions with other segments is 10% or more of the total revenue, external and internal, of all segments; or its segment result, whether profit or loss, is 10% or more of the combined result of all segments in profit or the combined result of all segments in loss, whichever is the greater in absolute amount; or its assets are 10% or more of the total assets of all segments.

##### *Business combinations and goodwill*

A business combination is the bringing together of separate entities or businesses into one reporting entity. Business combinations are accounted for through by applying the purchase method in accordance with IFRS 3.

The cost of a business combination is allocated by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill has been recognised as an asset and has initially been measured as the excess of the cost of the combination over the fair value of the acquiree's assets, liabilities and contingent liabilities. In business combinations, the acquirer recognises identifiable assets (such as deferred income tax on carry forward losses), intangible assets (such as trademarks) and/or contingent liabilities which are not included in the acquiree's financial statements at their fair values in the consolidated financial statements. The goodwill previously recognised in the financial statements of the acquiree is not considered as an identifiable asset.

Goodwill recognised as a result of business combinations is not amortised and its carrying value is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

If the acquisition cost is lower than the fair value of the identifiable assets, liabilities and contingent liabilities acquired, the difference is accounted for as income in the related period.

Business combinations between entities under common control are not considered under framework of IFRS 3, are accounted by applying the predecessor accounting method.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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### NOTE 2 -BASIS OF PRESENTATION OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND ACCOUNTING POLICIES APPLIED (Continued)

#### 2.2 Summary of Significant Accounting Policies (Continued)

##### *Taxes on income*

Taxes include current period income taxes and deferred taxes. Current year tax liability consists of tax liability on period income calculated according to currently enacted tax rates and tax legislation in force as of balance sheet date and includes adjustments related to previous years' tax liabilities (Note 24).

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Currently enacted tax rates are used to determine deferred income tax (Note 24).

In substance, temporary differences arise from the differences in the periods of the recognition of income and expenses in accordance with the accounting policies described in Note 2 and tax legislation.

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

Deferred tax assets and deferred tax liabilities related to income taxes levied by the same taxation authority are offset accordingly.

##### *Employee Benefits / Provision for employment termination benefit*

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

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses.

##### *Statements of Cash Flows*

In statement of cash flows, cash flows are classified according to operating, investment and finance activities.

Cash flows from operating activities reflect cash flows generated from the main operations of the Group.

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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### NOTE 2 -BASIS OF PRESENTATION OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND ACCOUNTING POLICIES APPLIED (Continued)

#### 2.2 Summary of Significant Accounting Policies (Continued)

##### *Statements of Cash Flows (Continued)*

Cash flows from investment activities express cash used in investment activities (direct investments and financial investments) and cash flows generated from investment activities of the Group.

Cash flows relating to finance activities express sources of financial activities and payment schedules of the Group.

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

##### **Government Grants**

All government incentives, including the non-monetary ones, which are recorded at their fair value are reported in the financial statements only in the case that a reasonable guarantee indicating that all the conditions are fulfilled by the entity is obtained. Demisable credits that are provided by the government are considered as government incentives in the case that a reasonable guarantee indicating that demise conditions are fulfilled by the entity is obtained.

Investment and research and development incentives are defined by the Group when incentive demands are approved by authorities (Note 13).

##### *Share capital, dividends and share premium*

Ordinary shares are classified as equity. Pro rata capital increases to existing shareholders are accounted for at par value as approved. Dividends on ordinary shares are recognised in equity in the period in which they are declared. Share premium represents the difference between nominal value of the publicly held shares and their sales prices.

##### *Significant accounting estimates and assumptions*

Preparation of financial statements requires use of estimates and assumptions that may affect the amount of assets and liabilities recognised as of balance sheet date, contingent assets and liabilities disclosed and amount of revenue and expenses reported. Although these estimates and assumptions rely on the Group management's best knowledge about the current events and transactions, actual outcome may vary from those estimates and assumptions. Group's significant accounting estimates are as follows:

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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### NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND ACCOUNTING POLICIES APPLIED (Continued)

#### 2.2 Summary of Significant Accounting Policies (Continued)

##### *Income taxes*

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and significant judgment is required in determining the provision for income taxes. The Group recognises possible additional tax liabilities as a result of taxable situations. The Group has accounted for a deferred tax asset related with tax losses carried forward since utilisation of these losses are considered as highly probable in the following periods. Where the final tax liability that has to be recognised is different from the liability that was initially recognised, such differences will impact the income tax and deferred tax income/loss in the current period.

### NOTE 3 - BUSINESS COMBINATIONS

#### **Business combinations of entities under common control:**

In the meeting of Board of Directors of Karsan held on 6 October 2009; in order to provide strengthening the capital structure and ensuring the synergy by combining two group companies overlapping areas of business; it has been decided to combine Karsan Otomotiv Sanayii ve Ticaret A.Ş. (Karsan) and Kare Dış Ticaret A.Ş., 99,99% of which is owned by the main shareholder of Karsan, Kırça Holding A.Ş. in accordance with articles 146-151 and of the TCC, articles 18 and 20 of the Corporate Tax Law and the provisions of the CMB legislation based on financial statements dated 30 September 2009; in this context, to implement the combination by taking over all assets and liabilities of Kare Dış Ticaret A.Ş. by Karsan without liquidation within Karsan and necessary legal procedures for stated corporate combination has decided to be begun.

Combination of the Company with Kare Dış Ticaret A.Ş. by taking over Kare Dış Ticaret A.Ş. in accordance with Article 451 of the TCC was discussed and approved in CMB Meeting No. 3/72, dated 12 February 2010. General meeting of shareholders to approve combination and association agreement has been held on 29 March 2010.

Nominal value shares to be issued, amounting to TL45,552,567 arising from increase of issued capital from TL150,000,000 to TL195,552,567 due to combination of the Company with Kare Dış Ticaret A.Ş. by taking over Kare Dış Ticaret A.Ş. in accordance with Capital Market Legislation, Article 451 of the TCC and articles 18 and 20 of the Corporate Tax Law have been registered and official document regarding registry dated 05 April 2010 No. 8/72 provided by the CMB. Exchange of shares was realised over the rate of 0.90833.

Listed document regarding the registration of shares and minutes of General Shareholders Meeting held on 29 March 2010 was registered by the Bursa Trade Registry Office on 06 April 2010 and combination procedures were completed.

Since combination took place by two companies under control of Kırça Holding A.Ş. and Karsan has taken over all assets and liabilities of Kare, the balance sheets of Karsan at 31 December 2010 have been prepared with combining balance sheets of two companies, prepared according to CMB Financial Reporting Standards. Since combination transaction has been prepared prospective, operating results of Kare after 06 April 2010 have been included in consolidated comprehensive statements of income for the period ended 31 December 2010. Kırsan has not been included in consolidated financial statements for the periods ended 31 March 2010 and before.



# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 3 - BUSINESS COMBINATIONS (Continued)

#### Business combinations of entities under common control: (Continued)

Difference occurred as a result of this business combination amounting to TL5,305,140, has been presented as "Additional contribution to equity related to combination" under consolidated equity since there is no related item in the presentation format of financial statements necessitated by CMB.

Kırpart Otomotiv Parçaları Sanayi ve Ticaret A.Ş. ("Kırpart"), 83% of which is owned by Kare, became a subsidiary of Karsan as a result of combination. 83% of shares of Kırpart which is one of the companies under control of Kiraça Holding A.Ş. have been transferred to Kare on 28 December 2008 for an amount of TL28,000,000. Since this share transfer is a transaction between entities under common control, it has not been considered under framework of IFRS 3 and accounted by applying predecessor accounting method by Kare. According to this method difference amounting to TL17,707,928 between participation fee set for Kırpart amounting to TL28,000,000 and carrying value of equity of Kırpart in financial statements as of 31 December 2008, has been presented under additional contribution to equity due to combination.

### NOTE 4 - SEGMENT REPORTING

The Group's operating segments, nature and economic characteristics of products, nature of production processes, classification of customers in terms of risk for their products and services and methods used to distribute their products are similar. Furthermore, the Group structure has been organised to operate in one segment rather than separate business segments. Consequently, the business activities of the Group are considered to be in one operating segment and the operating results, resources to be allocated to the segment and assessment of performance are managed in this respect.

Net sales by geographical location of customers for the periods 01 January - 31 December 2010 and 2009 are presented for information purposes, although they are not considered as separate operating segments.

	01 January- 31 December 2010	01 January- 31 December 2009
Russia	94,151,759	8,870,891
Israel	85,098,583	21,639,179
Algeria	48,377,164	46,984,229
Ukraine	7,896,604	-
Tunisia	6,351,079	5,809,676
Ivory Coast	3,021,265	-
Oman	920,989	3,542,697
Belarus	425,248	2,071,180
Libya	-	2,309,076
Hungary	-	2,229,354
Turkey	274,740,819	153,300,249
Other (*)	32,963,747	45,893,310
<b>Total</b>	<b>553,947,257</b>	<b>292,345,841</b>

(\*) Consists of Romania, United Arab Emirates, Syria, Saudi Arabia, Bosnia Herzegovina, France, Albania, Lebanon, Iraq, Qatar, Spain, Senegal, Italy, Morocco, Macedonia, Yemen, Hungary, Brazil, Belgium, Germany, Australia, India, Palestine, Bulgaria, Bahrain, Nigeria, Benin, Togo, Madagascar, Egypt, and Serbia.

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 5 - CASH AND CASH EQUIVALENTS

	31 December 2010	31 December 2009
Cash	7,475	5,844
Banks		
- demand deposits	1,127,680	664,834
- time deposits with maturities less than three months	100,000	-
<b>Total</b>	<b>1,235,155</b>	<b>670,678</b>

Details of time deposits are as follows:

	31 December 2010		31 December 2009	
	TL	Annual Interest Rate (%)	TL	Annual Interest Rate (%)
TL	100,000	6	-	-
<b>Total</b>	<b>100,000</b>		<b>-</b>	<b>-</b>

### NOTE 6 - FINANCIAL INVESTMENTS

Details of the available-for-sale financial assets as of 31 December 2010 and 31 December 2009 are as follows:

Available-for-sale financial assets	Share %	31 December 2010	Share %	31 December 2009
<u>Not publicly traded</u>				
Bosen Enerji A.Ş.	<1	<u>2,114</u>	<1	<u>2,114</u>

### NOTE 7 - FINANCIAL LIABILITIES

	31 December 2010	31 December 2009
Short-term bank loans	46,898,298	59,755,283
TL factoring payables	10,272,122	20,000,000
Long-term financial liabilities	55,953,257	19,639,091
<b>Total financial liabilities</b>	<b>113,123,677</b>	<b>99,394,374</b>

	31 December 2010	31 December 2009
Bank loans	102,851,555	79,233,126
TL factoring payables	10,272,122	20,000,000
Loan from Turkey Technology Development Foundation ("TTGV")	-	161,248
	<b>113,123,677</b>	<b>99,394,374</b>

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 7 - FINANCIAL LIABILITIES (Continued)

#### a) Short-term Financial Liabilities

	31 December 2010		31 December 2009	
	TL	interest rate (%)	TL	interest rate (%)
Short-term loans				
EUR loans (*)	32,789,105	4.11	23,253,062	4.44
TL loans	12,890,572	9.33	36,340,973	14.15
USD loans	1,218,621	4.33	161,248	-
TL factoring payables	10,272,122	10	20,000,000	15.00
<b>Total</b>	<b>57,170,420</b>		<b>79,755,283</b>	

#### b) Long-term Financial Liabilities

	31 December 2010		31 December 2009	
	TL	interest rate (%)	TL	interest rate (%)
Long-term loans				
TL loans	41,570,000	11.69	-	-
EUR loans (*)	12,321,921	4.11	19,639,091	3.79
USD loans	2,061,336	4.44	-	-
<b>Total</b>	<b>55,953,257</b>		<b>19,639,091</b>	

(\*) Bank loans of EUR9,198,001 (TL18,847,624) including the interest expense accrual as of 31 December 2010 are arranged at floating rates (Euribor + 2.75%) and expose the Group to cash flow interest rate risk. The loan repayments are semi-annually in March and September. First instalment payment of the principle amount in 2011 will be performed on March 2010. This loan is secured by mortgage of EUR50,000,000 on plant, property and equipment (Note 11).

#### Covenants:

The Group's loan is subject to meet certain key performance indicators. The loan which subject to meet certain key performance indicators is amounting to EUR9,198,001 and will be paid during 2011.

Disclosures on the fair value of the Group's financial liabilities have been provided in Note 28.

Payment plan of long-term financial liabilities:

	31 December 2010	31 December 2009
2011	-	19,639,091
2012	25,352,587	-
2013	30,600,670	-
<b>Total</b>	<b>55,953,257</b>	<b>19,639,091</b>

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 8 - TRADE RECEIVABLES AND PAYABLES

#### a) Trade Receivables

	31 December 2010	31 December 2009
Trade receivables	34,964,030	22,434,086
Doubtful receivables	1,909,168	27,839
Notes receivable	14,381,699	6,388,326
Other trade receivables	48,660	13,000
	<b>51,303,557</b>	<b>28,863,251</b>
Less: doubtful receivable provision	(1,909,168)	(27,839)
Less: Unearned credit finance income	(821,159)	(572,781)
	<b>48,573,230</b>	<b>28,262,631</b>

The movements of the provision for doubtful receivables during the period 31 December 2010 and 2009 are as follows;

	2010	2009
<b>01 January</b>	<b>(27,839)</b>	<b>(27,839)</b>
Additions due to combinations	(2,744)	-
Provision for doubtful receivables	(1,881,329)	-
Reversed provisions	2,744	-
<b>31 December</b>	<b>(1,909,168)</b>	<b>(27,839)</b>

The Group's standard credit period of its trade receivables is between 30 and 60 days (31 December 2009: between 30 and 60 days). The effective annual interest rates applied to trade receivables denominated in TL, EUR and USD are 6.32%, 0.77% and 0.27% respectively (31 December 2009: 6.98%, 0.35% and 0.23%).

#### b) Trade Payables

	31 December 2010	31 December 2009
Trade payables	108,698,064	68,378,790
Less: Unearned credit finance expense	(177,241)	(65,392)
	<b>108,520,823</b>	<b>68,313,398</b>

The Group's average payment period for its trade payables is 90 days (31 December 2009: 90 days). The effective annual interest rates applied to trade payables denominated in TL, EUR and USD are 6.38%, 0.95% and 0.30% respectively (31 December 2009: 7.28%, 0.66% and 0.25%). The Group was not exposed to any interest payments.

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 9 - PROVISIONS

#### Short-term provisions

	31 December 2010	31 December 2009
Sales discounts provisions	2,700,816	1,879,377
Guarantee expense provisions	2,417,339	3,345,171
Other	329,506	698,294
<b>Total</b>	<b>5,447,661</b>	<b>5,922,842</b>

The movements of the sales discounts provisions during period 31 December 2010 and 2009 are as follows:

	2010	2009
Balance as of 01 January	1,879,377	3,482,971
Additions: Recorded provisions	15,849,239	11,199,403
Disposals due to the payments	(15,027,800)	(12,802,997)
<b>Balance as of 31 December</b>	<b>2,700,816</b>	<b>1,879,377</b>

The movements of the Guarantee expense provisions during period 31 December 2010 and 2009 are as follows:

	2010	2009
Balance as of 01 January	3,345,171	3,773,830
Additions: Recorded provisions	1,848,977	1,540,129
Disposals due to the payments	(2,776,809)	(1,968,788)
<b>Balance as of 31 December</b>	<b>2,417,339</b>	<b>3,345,171</b>

### NOTE 10 - INVENTORIES

	31 December 2010	31 December 2009
Raw materials	34,980,121	23,369,489
Semi-finished goods	6,744,925	2,766,222
Finished goods	8,701,065	26,223,086
Trade goods	4,317,425	438,289
Goods in transit	16,821,828	12,324,791
	<b>71,565,364</b>	<b>65,121,877</b>
Provision for net realisable value of inventories (-)	(1,310,043)	(1,439,085)
	<b>70,255,321</b>	<b>63,682,792</b>

For the period from 01 January to 31 December 2010, a portion amounting to TL455,314,164 of the cost of goods sold is related to raw material and supplies usage (01 January - 31 December 2009: TL168,004,812).

## KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

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#### NOTE 10 – INVENTORIES (Continued)

Movements of provision for net realisable value of inventories during the period are as follows:

	<b>2010</b>	<b>2009</b>
<b>01 January</b>	<b>(1,439,085)</b>	<b>-</b>
Current period sales	1,439,085	-
Provision for net realisable value of inventories for the period (-)	(1,310,043)	(1,439,085)
<b>31 December</b>	<b>(1,310,043)</b>	<b>(1,439,085)</b>

# KARSAN OTOMOTİV SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment and related accumulated depreciation for the period ended 31 December 2010 is as follows:

	Land	Land Improvements	Buildings	Machinery and Equipment	Vehicles	Furniture and Fixtures	Other Tangible Fixed Assets	Construction In Progress	Total
<b>Cost</b>									
Opening balance at 01 January 2010	26,237,792	10,676,979	55,660,979	238,872,277	755,710	14,282,312	6,940,858	12,712,488	366,139,395
Additions	-	237,528	507,778	4,336,172	1,162,876	4,285,219	196,640	29,357,815	40,084,028
Additions due to combination	1,276,614	-	28,268,635	13,513,620	130,162	1,018,647	2,931,404	357,514	47,496,596
Disposals	-	-	-	(2,789,709)	(794,984)	(10,945)	-	-	(3,595,638)
Transfers	-	22,540	1,153,505	7,047,599	-	275,484	-	(23,689,243)	(15,190,115)
Transfers due to combination(*)	-	-	5,636,903	-	-	-	(5,636,903)	-	-
	27,514,406	10,937,047	91,227,800	260,979,959	1,253,764	19,850,717	4,431,999	18,738,574	434,934,266
<b>Accumulated depreciation</b>									
Opening balance at 01 January 2010	-	3,372,563	19,637,976	157,911,579	473,799	8,719,845	3,119,296	-	193,235,058
Charge for the period	-	433,338	3,169,454	12,892,011	200,364	1,770,086	718,977	-	19,184,230
Additions due to combination	-	-	2,549,806	1,755,481	86,989	770,314	2,414,403	-	7,576,993
Disposals	-	-	-	(2,465,062)	(130,049)	(6,794)	-	-	(2,601,905)
Transfers due to combination (*)	-	-	3,114,992	-	-	-	(3,114,992)	-	-
	-	3,805,901	28,472,228	170,094,009	631,103	11,253,451	3,137,684	-	217,394,376
Net Book Value as of 31 December 2010	27,514,406	7,131,146	62,755,572	90,885,950	622,661	8,597,266	1,294,315	18,738,574	217,539,890

(\*) As a result of combination with Kare (Note 3), Group has become the owner of the building of which it was the leaseholder and classified the special costs on building and accumulated depreciation as buildings.

## KARSAN OTOMOTİV SANAYİ VE TİCARET A.Ş.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

#### NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Continued)

The movement of property, plant and equipment and related accumulated depreciation for the period ended 31 December 2009 is as follows:

	Land	Land Improvements	Buildings	Machinery and Equipment	Vehicles	Furniture and Fixtures	Other Tangible Fixed Assets	Construction In Progress	Total
<u>Cost</u>									
Opening balance at 01 January 2009	6,561,271	9,634,886	55,364,509	178,266,310	546,953	12,108,612	5,793,399	12,345,771	280,621,711
Additions	-	41,427	-	932,449	206,757	966,757	16,949	20,395,717	22,560,056
Disposals	-	-	-	-	-	(38,240)	-	-	(38,240)
Revaluation Fund	19,676,521	-	-	47,590,712	-	-	-	-	67,267,233
Transfers	-	1,000,666	296,470	12,082,806	2,000	1,245,183	1,130,510	(20,029,000)	(4,271,365)
	<u>26,237,792</u>	<u>10,676,979</u>	<u>55,660,979</u>	<u>238,872,277</u>	<u>755,710</u>	<u>14,282,312</u>	<u>6,940,858</u>	<u>12,712,488</u>	<u>366,139,395</u>
<u>Accumulated depreciation</u>									
Opening balance at 01 January 2009	-	2,953,601	17,423,759	147,761,029	386,382	7,437,069	1,886,517	-	177,848,357
Charge for the period	-	418,962	2,214,217	10,150,550	87,417	1,292,513	1,232,779	-	15,396,438
Disposals	-	-	-	-	-	(9,737)	-	-	(9,737)
	<u>-</u>	<u>3,372,563</u>	<u>19,637,976</u>	<u>157,911,579</u>	<u>473,799</u>	<u>8,719,845</u>	<u>3,119,296</u>	<u>-</u>	<u>193,235,058</u>
Net Book Value as of 30 June 2009	<u>26,237,792</u>	<u>7,304,416</u>	<u>36,023,003</u>	<u>80,960,698</u>	<u>281,911</u>	<u>5,562,467</u>	<u>3,821,562</u>	<u>12,712,488</u>	<u>172,904,337</u>



# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group has given EUR50,000,000 of mortgage on the property, plant and equipment in line with the requirements of the long-term loan used as of 31 December 2010 (31 December 2009: EUR50,000,000).

TL8,763,264 (2009: TL2,532,200) of the current period depreciation and amortisation expenses have been reflected to costs of goods sold, TL9,695,661 (2009: TL11,889,323) to idle time expense, TL291,837 (2009: TL239,129) to marketing, sales and distribution expenses (Note 19), TL1,299,687 (2009: TL1,363,276) to general administrative expenses (Note 19) and TL1,313,989 (2009: TL1,042,557) to inventory costs.

Movements of revaluation fund of land, buildings, machinery and equipment in 2010 and 2009 are as follows:

	2010	2009
<b>01 January</b>	<b>56.765.264</b>	-
Fund increase arising from revaluation of land due to business combination	971,080	-
Fund increase arising from revaluation of machinery, plant and equipment due to business combination	2,449,073	-
Deferred tax calculated on increase in revaluation fund due to business combination	(538,368)	-
Minority Share from fund increase arising from revaluation due to business combination	(489,903)	-
Revaluation fund decrease due to disposal of Plant, Property, and Equipment	(441,903)	-
Deferred tax calculated on decrease in revaluation fund	88,381	-
Fund increase arising from revaluation of land	-	19,676,521
Fund increase arising from revaluation of machinery, plant and equipment	-	47,590,711
Deferred tax calculated on increase in revaluation fund	-	(10,501,968)
<b>31 December</b>	<b>58,803,624</b>	<b>56,765,264</b>

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 12 - INTANGIBLE ASSETS

The movement of intangible assets for the period ended 31 December 2010 and 2009 are as follows:

	Computer software	Capitalised development costs	Total
<u>Cost Value</u>			
Opening balance at 01 January 2010	5,297,845	12,431,650	17,729,495
Additions	207,811	10,212	218,023
Transfers	122,557	15,067,558	15,190,115
Additions due to combination	666,822	-	666,822
	<u>6,295,035</u>	<u>27,509,420</u>	<u>33,804,455</u>
<u>Accumulated amortisation</u>			
Opening balance at 01 January 2010	4,896,328	3,660,338	8,556,666
Charge for the period	343,740	1,836,468	2,180,208
Additions due to combination	554,176	-	554,176
	<u>5,794,244</u>	<u>5,496,806</u>	<u>11,291,050</u>
Net book value as of 31 December 2010	<u>500,791</u>	<u>22,012,614</u>	<u>22,513,405</u>
	Computer software	Capitalised development costs	Total
<u>Cost Value</u>			
Opening balance at 01 January 2009	5,280,946	8,165,485	13,446,431
Purchases	11,699	-	11,699
Disposals	-	-	-
Transfers	5,200	4,266,165	4,271,365
Closing balance at 31 December 2009	<u>5,297,845</u>	<u>12,431,650</u>	<u>17,729,495</u>
<u>Accumulated amortisation</u>			
Opening balance at 01 January 2009	4,383,943	2,502,676	6,886,619
Charge for the period	512,385	1,157,662	1,670,047
Disposals	-	-	-
Closing balance at 31 December 2009	<u>4,896,328</u>	<u>3,660,338</u>	<u>8,556,666</u>
Net book value as of 31 December 2009	<u>401,517</u>	<u>8,771,312</u>	<u>9,172,829</u>

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

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### NOTE 13 - GOVERNMENT GRANTS AND INCENTIVES

#### Investment Incentive Certificates

As of 31 December 2010, the Group has Investment Incentive Certificate No. 91560, dated 20 August 2008. This investment incentive certificate is for the amount of TL36,137,072 and has been acquired for the investments of Extension - Modernisation - Product Differentiation.

Below are the details of the advantages enabled by the investment incentive certificates:

- 100% customs exemption related to imported machinery and equipments.
- VAT exemption

#### *TÜBİTAK Research and Development Support Contribution*

In the year 2010, the Group received research and development grant from the Scientific and Technological Research Council of Turkey (TÜBİTAK) in the amount of TL1,532,739 (Note 21).

### NOTE 14 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

#### a) Competition Board investigation:

In accordance with decision Nos. 09-41/998-M and 10-10/91-M, dated 09 September 2009 and 28 January 2010, respectively, an investigation was opened regarding various enterprises operating in the motor vehicle market, also including Karsan, as per Article 41 of the Law on Protection of Competition for the purposes of determining whether these enterprises contravene Article 4 of the same Law. Oral defence meeting will be held on 12 April 2011 within the scope of the investigation.

#### b) Guarantees, Pledges and Mortgages given by the Group ("GPMs"):

As of 31 December 2010 and 31 December 2009 guarantees, pledges and mortgages ("GPMs") given by Group are as follows:

	31 December 2010	31 December 2009
A. GPMs given on behalf of the Company's legal personality (*)	125,592,231	111,425,975
B. GPMs given in favour of subsidiaries included in full consolidation	-	-
C. GPMs given by the Company for the liabilities of third parties in order to run ordinary course of business	-	-
D. Other GPMs		
i. GPMs given in favour of parent company	-	-
ii. GPMs given in favour of group companies not in the scope of B and C above.	-	-
i. GPMs given in favour of third-party companies not in the scope of C above.	-	-

(\*) Composes of guarantee letters given to custom administrations, tax administration, other public corporations and EUR50,000,000 of mortgage given on the property, plant and equipment in line with the requirements of the long-term loan used.

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 14 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

#### c) Guarantees received:

Guarantees received by the Group are as follows:

	31 December 2010	31 December 2009
Letters and cheques of guarantees received	13,533,398	10,680,433
Direct borrowing system	12,750,200	9,398,406
<b>Total</b>	<b>26,283,598</b>	<b>20,078,839</b>

#### d) Other

The Group has letters of credit amounting to TL3,591,380 as of 31 December 2010 (31 December 2009: TL159,876) which have been opened for the purchases of raw materials and supplies which have not yet been imported.

### NOTE 15 - EMPLOYMENT BENEFITS (PROVISION FOR EMPLOYMENT TERMINATION BENEFIT)

Under Turkish Labour Law, the Group is required to pay employment termination benefits to each employee who has qualified for such payment. Also, employees are entitled to retirement pay provisions subsequent to the completion of their retirement period by gaining a right to receive retirement payments in accordance with the amended Article of 60 the applicable Social Insurance Law No. 506 and the related Decrees Nos. 2422 and 4447, issued on 06 March 1981 and 25 August 1999, respectively. The amount payable consists of one month's salary, limited to a maximum of TL2,517.01 for each period of service at 31 December 2010 (31 December 2009: TL2,365.16).

The liability is not funded, as there is no funding requirement.

The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. IAS 19 ("Employee Benefits"), Requires actuarial valuation methods to be developed to estimate the enterprises' obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2010, the provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 5.1% and a discount rate of 10%, resulting in a real discount rate of approximately 4.66% (31 December 2009: 5.92%). The anticipated rate of forfeitures is considered. As the maximum liability is revised semi annually, the maximum amount of TL2,623.23 effective as of 01 January 2011 has been taken into consideration in calculation of provision from employment termination benefits (01 January 2010: TL2,427.04). Movements of the provision for employment termination benefits during the periods ended 31 December 2009 and 2010 are as follows:

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 15 - EMPLOYMENT BENEFITS (PROVISION FOR EMPLOYMENT TERMINATION BENEFIT) (Continued)

	2010	2009
Provision at 01 January	2,466,732	1,869,053
Additions due to combination	877,925	-
Increase in the period	1,815,600	2,287,211
Interest cost	155,861	110,648
Payments	(381,993)	(1,800,180)
<b>Provision at 31 December</b>	<b>4,934,125</b>	<b>2,466,732</b>

	31 December 2010	31 December 2009
Turnover rate to estimate the probability of retirement (%)	97	95

### NOTE 16 - OTHER ASSETS AND LIABILITIES

#### a) Other Current Assets

	31 December 2010	31 December 2009
VAT carried forward	21,440,116	11,009,448
Income accruals (*)	7,294,852	-
Order advances given	2,454,285	1,103,328
Prepaid expenses	2,267,937	1,131,531
Other VAT	23,075	2,714,020
Other	306,896	24,571
<b>Total</b>	<b>33,787,161</b>	<b>15,982,898</b>

(\*) Increase in income accruals is resulting from income accruals of Peugeot Citroen (PSA), Renault Trucks and Hyundai projects

#### b) Other Non-Current Assets

	31 December 2010	31 December 2009
Advances given for property, plant and equipment	2,796,115	4,060,741
Deposits and guarantees given	69,235	161,370
Prepaid expenses	21,188	14,292
<b>Total</b>	<b>2,886,538</b>	<b>4,236,403</b>

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 16 - OTHER ASSETS AND LIABILITIES (Continued)

#### c) Other Current Liabilities

	31 December 2010	31 December 2009
Advances received	7,241,310	226,306
Unpaid vacation liability	1,960,749	1,368,467
Due to personnel	1,619,638	546,991
Short-term deferred income	1,520,696	1,286,147
Other taxes and funds payable	1,245,537	1,014,985
Social security premiums payable	1,113,436	628,291
Other	99,789	48,472
<b>Total</b>	<b>14,801,155</b>	<b>5,119,659</b>

#### d) Other Non-Current Liabilities

	31 December 2010	31 December 2009
Long-term deferred income	1,038,778	626,605
<b>Total</b>	<b>1,038,778</b>	<b>626,605</b>

### NOTE 17 - EQUITY

#### a) Paid-in Capital

The composition of the Group's paid-in share capital as of 31 December 2010 and 31 December 2009 is as follows:

	31 December 2010		31 December 2009	
	Share (%)	TL	Share (%)	TL
Kıraça Holding A.Ş.	63.46	124,093,069	52.36	78,540,501
Diniz Grubu	1.73	16,019,397	10.68	16,019,397
İnan Kıraç	8.19	3,380,072	2.25	3,380,072
Other	26.62	52,060,029	34.71	52,060,030
	<b>100.00</b>	<b>195,552,567</b>	<b>100.00</b>	<b>150,000,000</b>
Inflation adjustment to share capital		22,585,778		22,585,778

The Group's share capital consists of 1,425,000,000 Class A shares and 18,130,256,736 Class B shares with par value Kr1 each (2009: 1,425,000,000 Class A and 13,575,000,000 Class B).

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 17 - EQUITY (Continued)

#### b) Paid-in Capital (Continued)

In the Group's Articles of Association, Article 8, privilege is given to group (A) shareholders. According to the privilege, five members (out of seven) of the Board of Directors will be elected among the proposed candidates by group (A) shareholders.

<u>Tier</u>	<u>Group</u>	<u>Privilege on BOD election</u>
1+2+3+4+5+6+7+8	A	Article No. 8

Movements of shares during the period are as follows:

	2010	2009
01 January	15,000,000,000	10,000,000,000
Issued shares due to capital increase	-	5,000,000,000
Issued shares due to combination (Note 3)	4,555,256,736	-
<b>31 December</b>	<b>19,555,256,736</b>	<b>15,000,000,000</b>

#### c) Restricted Reserves

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

The aforementioned amounts shall be classified in "Restricted Reserves" in accordance with CMB Financial Reporting Standards. As of 31 December 2010, the Group has restricted reserves assorted from profit in the amount of TL1,031,613 (31 December 2009: TL1,029,833).

#### c) Share Premium

Share premium represents the difference between face value and selling price of the public shares.

Share premium as 31 December 2010 and 31 December 2009 are as follows:

	31 December 2010	31 December 2009
Share Premium	5,864,260	5,864,260

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 18 - SALES AND COST OF SALES

#### a) Net sales

	01 January - 31 December 2010	01 January - 31 December 2009
Domestic sales	288,828,323	164,485,865
Foreign sales	278,027,321	126,744,085
Other income	6,936,842	14,968,438
Sales returns (-)	(3,635,962)	(2,550,333)
Sales discounts (-)	(16,209,267)	(11,302,214)
	<b>553,947,257</b>	<b>292,345,841</b>

#### b) Cost of Sales

	01 January - 31 December 2010	01 January - 31 December 2009
Raw materials consumed	(455,314,164)	(168,004,812)
Direct labour	(22,743,923)	(10,541,214)
Production overheads	(35,335,941)	(16,167,151)
Depreciation	(8,763,264)	(2,532,200)
Change in work-in-process inventories	3,108,121	(68,771)
Change in finished goods	(8,144,276)	(80,034,230)
Idle capacity expenses	(10,233,715)	(11,951,635)
Cost of merchandises sold	(13,083,859)	(6,015,002)
	<b>(550,511,021)</b>	<b>(295,315,015)</b>

### NOTE 19 - MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES AND RESEARCH AND DEVELOPMENT EXPENSES

	01 January - 31 December 2010	01 January - 31 December 2009
Marketing, sales and distribution expenses	(15,046,146)	(10,552,531)
General administrative expenses	(18,192,770)	(14,052,223)
Research and development expenses	(685,620)	-
<b>Total</b>	<b>(33,924,536)</b>	<b>(24,604,754)</b>



# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 19 - MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES AND RESEARCH AND DEVELOPMENT EXPENSES (Continued)

#### a) Marketing, Sales and Distribution expenses

	01 January - 31 December 2010	01 January - 31 December 2009
Personnel expenses	(4,056,026)	(2,331,138)
Warranty expenses	(2,854,203)	(2,465,822)
Advertising expenses	(1,758,409)	(1,300,350)
Transportation and insurance expenses	(1,578,130)	(1,346,300)
Sales commissions	(761,931)	(236,223)
Rent expenses	(310,183)	(557,208)
Dealer and authorised service meeting expenses	(297,026)	(222,462)
Subcontract work expenses	(292,529)	(266,111)
Depreciation and amortisation expenses	(291,837)	(239,129)
Sales research and development expenses	(185,110)	(159,385)
Other	(2,660,762)	(1,428,403)
<b>Total</b>	<b>(15,046,146)</b>	<b>(10,552,531)</b>

#### b) General Administrative Expenses

	01 January - 31 December 2010	01 January - 31 December 2009
Personnel expenses	(7,410,955)	(5,770,887)
Subcontract work expenses	(2,096,699)	(1,353,142)
Depreciation and amortisation expenses	(1,299,687)	(1,363,276)
Holding expense participation	(932,646)	(530,078)
Tax and penalty expenses	(896,451)	(157,130)
Legal and consulting expenses	(827,881)	(1,436,789)
Energy Expenses	(464,560)	(342,027)
Subscription and membership fee expenses	(375,284)	(258,737)
Insurance expenses	(293,034)	(308,348)
Travel expenses	(244,081)	(301,171)
Audit and advisory expenses	(236,511)	(224,415)
Rent expenses	(234,852)	(246,205)
Other	(2,880,129)	(1,760,018)
<b>Total</b>	<b>(18,192,770)</b>	<b>(14,052,223)</b>

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 20 - EXPENSES BY NATURE

Expenses for the period between 01 January - 31 December 2010 and 2009 have been presented by function in Note 18 and Note 19.

### NOTE 21 - OTHER OPERATING INCOME AND EXPENSES

#### Other Operating Income

	01 January - 31 December 2010	01 January - 31 December 2009
Research and development support premiums (Note 13)	1,532,739	15,357
Social security institution premium discount	1,262,611	796,790
Gain on sale of tangible/intangible assets	326,271	1,475
Purchase support charges	247,215	584,210
Insurance claim received	187,150	111,091
Cancellation of provision for warranty	-	227,723
Other	382,937	84,865
<b>Total</b>	<b>3,938,923</b>	<b>1,821,511</b>

#### Other Operating Expenses

	01 January - 31 December 2010	01 January - 31 December 2009
Doubtful receivable provision	(1,881,329)	(27,839)
Loss on sale of tangible/intangible assets	(327,864)	-
Other	(207,975)	(108,904)
<b>Total</b>	<b>(2,417,168)</b>	<b>(136,743)</b>

### NOTE 22 - FINANCIAL INCOME

	01 January - 31 December 2010	01 January - 31 December 2009
Foreign exchange gains	24,940,791	21,668,195
Rediscount interest income	4,434,384	2,845,883
Deposits interest income	75,803	57,440
<b>Total financial income</b>	<b>29,450,978</b>	<b>24,571,518</b>

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 23 - FINANCIAL EXPENSES

	01 January - 31 December 2010	01 January - 31 December 2009
Foreign exchange losses	(26,632,430)	(20,951,712)
Borrowing costs	(15,232,474)	(28,516,707)
Factoring expenses	(4,093,259)	(13,897,277)
<b>Total financial expenses</b>	<b>(45,958,163)</b>	<b>(63,365,696)</b>

### NOTE 24 - TAX ASSETS AND LIABILITIES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)

#### Deferred Tax:

The Group recognises deferred tax assets and liabilities based upon temporary differences arising between its consolidated financial statements prepared in compliance with Financial Reporting Standards defined in Note 2 and its statutory tax consolidated financial statements. These differences in revenue and expenses are recorded in according to accounting principles that were defined in Note 2 and tax purposes in different periods.

Temporary differences subject to deferred tax and the effect of deferred tax assets and liabilities as of 31 December 2010 and 31 December 2009 are summarised below using the above tax rate applied:

	Total temporary differences		Deferred tax (liability) / asset	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Difference between tax base and carrying value of property, plant and equipment and intangible assets	72,325,122	64,013,386	(14,465,024)	(12,802,677)
Income accruals	7,294,852	-	(1,458,970)	-
Financial income/loss not accrued(net)	143,298	-	(28,660)	-
<b>Deferred tax liabilities</b>			<b>(15,952,654)</b>	<b>(12,802,677)</b>
Carry forward tax losses (*)	143,160,028	117,298,635	28,632,006	23,459,727
Investment allowance	54,850,433	54,237,860	1,438,667	1,329,134
Provision for employment termination benefits	4,934,125	2,464,805	986,825	492,961
Deferred income	2,344,479	1,209,505	468,896	241,901
Provision for sales discounts	2,700,816	-	540,163	-
Provision for guarantee expenses	2,417,339	3,345,171	483,468	669,034
Provision for unused vacation	1,960,749	1,336,309	392,150	267,262
Inventory impairment provision	1,320,368	1,439,085	264,074	287,817
Financial income/loss not accrued(net)	-	302,070	-	60,414
Other	850,172	146,535	170,034	29,307
<b>Deferred tax assets</b>			<b>33,376,283</b>	<b>26,837,557</b>
<b>Deferred tax assets - net</b>			<b>17,423,629</b>	<b>14,034,880</b>

(\*) Deferred tax assets are recorded only if probability of revenue to tax enough in further periods exists.

# KARSAN OTOMOTİV SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 24 - TAX ASSETS AND LIABILITIES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Continued)

#### Deferred Tax: (Continued)

The Group has accumulated tax losses amounting to TL182,683,736 (31 December 2009: TL162,583,354) as of 31 December 2010. The Group management has reflected TL28,632,006 of deferred tax asset for accumulated tax losses amounting to TL143,160,028 in the accompanying financial statements after accounting for a provision for carried-forward tax losses amounting to TL39,523,708 which the Group will not be able to utilise according to the five year projections to determine whether it is probable to utilise these carried forward tax losses before their expiration dates.

The expiration dates of unused accumulated losses are as follows:

	31 December 2010	31 December 2009
Expires in 2011	-	15,330,680
Expires in 2012	-	6,305,151
Expires in 2013	40,292,869	40,292,869
Expires in 2014	55,642,900	55,369,935
Expires in 2015	47,224,259	-
	<b>143,160,028</b>	<b>117,298,635</b>

Deferred tax asset, net:

	2010	2009
01 January	14,034,880	16,947,090
Land, Machinery and Equipment revaluation effect		
- Associated with equity (Note 11)	-	(10,501,968)
Additions due to business combination	(1,313,830)	-
Current period deferred tax income	4,702,579	7,589,758
<b>31 December</b>	<b>17,423,629</b>	<b>14,034,880</b>

The reconciliation of the taxation on income in the consolidated statement of income for the periods ended 31 December 2010 and 2009 and the taxation on income calculated with the current tax rate over income from continuing operations before tax is as follows:

	31 December 2010
Loss before income taxes	(45,473,730)
20% provision for corporate tax calculated by effective tax rate	9,094,746
Effects of carry forward tax losses over which deferred tax asset is not recognised	(4,327,166)
Income not subject to tax	2,328,695
Disallowable expenses	(2,842,726)
Other	137,813
<b>Total</b>	<b>4,391,362</b>

# KARSAN OTOMOTİV SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

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### NOTE 24 - TAX ASSETS AND LIABILITIES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Continued)

#### Corporate Tax

Turkish tax legislation does not allow for the submission of tax returns over consolidated financial statements prepared by the parent company, which include its subsidiaries and affiliates. Accordingly tax considerations reflected in these consolidated financial statements have calculated separately for each of the companies in the scope of the consolidation.

Corporation tax rate for the fiscal years 2010 and 2009 is 20%.

Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their corporate income and declare by the 14th of the second month following the quarter.

(31 December 2009: 20%). Advance tax is payable by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

Losses are allowed to be carried a maximum of five years to be deducted from the taxable profit of the following years. Tax carry back is not allowed.

As of January 2006, the exemption for investment allowance has been abolished with Corporate Income Tax Law No. 5479.

A transition period of three years has been provided for income and corporate taxpayers which have investment incentive allowance rights as of 31 December 2005, which have not yet utilised and which have been deferred to the following years where corporate income may be insufficient and where investment allowance will be earned from the investment expenditures made for the ongoing projects as of 31 December 2005.

According to this,

- investment allowances that exist at 31 December 2005 and that cannot be deductible from income generated in 2005 (advance corporate tax or investment allowance of 40%),
- investment allowances calculated in accordance with the legislation valid as of 31 December 2005 and its related 19.8% tax deduction for investment incentive share certificates granted prior to 24 April 2003 and started before 01 January 2006; and
- investment allowances calculated at a rate of 40% in accordance with the legislation valid as of 31 December 2005 for investment incentives granted after 24 April 2003 in accordance with the abolished Article No.19 of Corporate Income Tax Law, which were started before 31 December 2005 and which present an economic and technical integrity with the investments, can be utilised for the income generated in the years 2006, 2007 and 2008 in accordance with the articles valid on 31 December 2005 (including the 30% corporate tax rate).

In accordance with the abolished Article No.19 of Corporate Income Tax Law, which were started before 31 December 2005 and which present an economic and technical integrity with the investments, can be utilised for the income generated in the years 2006, 2007 and 2008 in accordance with the articles valid on 31 December 2005 (including the 30% corporate tax rate).

Companies which have investment incentive applied to court for the cancellation of the law. The Constitutional Court abolished the provisions of Temporary Article 69 of the Income Tax Law regarding the time limitation to the investment allowance in its meeting held on 15 October 2009. The decision of the Constitutional Court on the cancellation of the time limitation for investment allowance for the years 2006, 2007 and 2008 came into force with its promulgation in the Official Gazette, dated 08 January 2010, and thereby the time limitation regarding investment allowance was removed.

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 25 - LOSS PER SHARE

A summary of the weighted average number of shares outstanding for the year ended in 31 December 2010 and 31 December 2009 and the basic earnings per share calculation is as follows:

	31 December 2010	31 December 2009
Weighted average number of outstanding shares	18,353,870,344	11,813,186,813
Net (loss) for the period (TL)	(41,082,368)	(57,093,580)
Net (loss) per share (TL)	(0,00224)	(0,00483)

### NOTE 26 - RELATED PARTY DISCLOSURES

#### Balances with related parties

#### a) Trade receivables from related parties

31 December 2010 31 December 2009

*Other companies managed by main shareholder*

Karland Otomotiv A.Ş.	809,022	-
	<b>809,022</b>	<b>-</b>

#### b) Other receivables from related parties

31 December 2010 31 December 2009

*Other companies managed by main shareholder*

Sirena Marine Denizcilik ve Ticaret A.Ş.	476,834	1,148,188
	<b>476,834</b>	<b>1,148,188</b>

#### c) Trade payables to related parties

31 December 2010 31 December 2009

*Shareholders*

Kıraça Holding A.Ş.	3,136,672	1,233,762
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*Other companies managed by main shareholder*

Silco S.A.	50,531,338	10,673,859
Heksagon Mühendislik A.Ş.	1,843,036	1,449,235
Sirena Marine Denizcilik ve Ticaret A.Ş.	1,023,761	-
Mercan Sigorta Aracılık Hizmetleri A.Ş.	90,830	-
Heksagon Danışmanlık ve Ticaret A.Ş.	65,873	18,798
Kırsan Turizm ve Otomotiv San.ve Tic. A.Ş.	50,031	-
Kök Ziraat Turizm San.ve Tic. A.Ş.	33,739	29,926
Kar İnşaat Taahhüt San. ve Tic. A.Ş.	19,170	-
Kare Dış Tic. A.Ş.	-	121,527
Karland Otomotiv A.Ş.	-	699
Kırpart Otomotiv A.Ş.	-	495
Kıraça Dış Ticaret A.Ş.	-	25

**56,794,450** **13,528,326**

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 26 - RELATED PARTY DISCLOSURES (Continued)

d) Other payables to related parties	31 December 2010	31 December 2009
<i>Shareholders</i>		
<i>Other</i>	2,158	2,158
	<b>2,158</b>	<b>2,158</b>

### Transactions with related parties

	01 January - 31 December 2010	01 January - 31 December 2009
<b>Sales</b>		
<i>Shareholders</i>		
Kıraça Holding A.Ş.	-	-
<i>Other companies managed by main shareholder</i>		
Karland Otomotiv A.Ş.	2,590,203	-
Silco S.A.	171,351	2,229,354
Heksagon Mühendislik A.Ş.	96,410	9,288
Sirena Marine Denizcilik ve Ticaret A.Ş.	21,887	-
Kırpart Otomotiv A.Ş.	-	2,217
<b>Total</b>	<b>2,879,851</b>	<b>2,240,859</b>

	01 January - 31 December 2010	01 January - 31 December 2009
<b>Domestic Service Purchases</b>		
<i>Shareholders</i>		
Kıraça Holding A.Ş.	3,230,450	2,673,871
<i>Other companies managed by main shareholder</i>		
Heksagon Mühendislik A.Ş.	8,103,661	5,395,427
Sirena Marine Denizcilik ve Ticaret A.Ş.	2,895,473	-
Mercan Sigorta Aracılık Hizmetleri A.Ş.	516,851	-
Kırsan Turizm ve Otomotiv San. ve Tic. A.Ş.	469,030	-
Heksagon Danışmanlık ve Ticaret A.Ş.	211,245	126,693
Kök Ziraat Turizm San.ve Tic. A.Ş.	217,722	88,912
Karland Otomotiv A.Ş.	37,046	12,379
Kar İnşaat Taahhüt San. ve Tic. A.Ş.	5,934	-
Kırpart Otomotiv A.Ş.	-	5,271
Kare Dış Tic. A.Ş.	107,529	408,577
Kıraça Dış Ticaret A.Ş.	-	9
<b>Total</b>	<b>15,794,941</b>	<b>8,711,139</b>

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 26 - RELATED PARTY DISCLOSURES (Continued)

The Group receives information systems, human resources, financing and other consulting services from Kıraca Holding and also pays monthly rent to Kare Dış Ticaret A.Ş. for the factory at Industrial Zone. Since Karsan and Kare combined as of 06 April 2010; Karsan became the owner of the building of which the company was the leaseholder; hence there has been no rent expense for last nine months (Note 3).

The Group's relation started within the period with Sirena Marine has arisen from purchasing equipments for the factory at Industrial Zone. Also parts used in the manufacturing of J10 vehicles are supplied.

Group pays monthly rent to Kök Ziraat A.Ş. for Istanbul office. Such expenses include other expenses related to security, natural gas, repair and maintenance, cleaning and office building and are invoiced monthly by Kök Ziraat A.Ş.

The Group purchases spare parts to use in the production of Renault Trucks and purchased the spare parts to use in the production of Renault Trucks from Silco S.A. which is based in Geneva.

The Group pays office usage fee to Heksagon Danışmanlık A.Ş. on monthly basis.

The Group receives engineering and design services for vehicles produced or to be produced by Heksagon Engineering.

	01 January - 31 December 2010	01 January - 31 December 2009
<b>Imports</b>		
Silco S.A.	75,325,185	30,302,164
<b>Total</b>	<b>75,325,185</b>	<b>30,302,164</b>

	01 January - 31 December 2010	01 January - 31 December 2009
<b>Late charges and interest expenses</b>		

#### *Shareholders*

Kıraca Holding A.Ş.	59,744	951,783
<b>Total</b>	<b>59,744</b>	<b>951,783</b>

#### *Other companies managed by main shareholder*

Sirena Marine Denizcilik ve Ticaret A.Ş.	186,060	-
Heksagon Mühendislik A.Ş.	38,331	96,397
Silco S.A.	-	414,093
Kare Dış Tic. A.Ş.	-	14,028
Karland Otomotiv A.Ş.	-	1,291
<b>Total</b>	<b>224,391</b>	<b>525,809</b>



# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

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### NOTE 26 - RELATED PARTY DISCLOSURES (Continued)

#### Remuneration paid to the key management personnel:

Remunerations provided to key management personnel are as follows:

	01 January - 31 December 2010	01 January - 31 December 2009
Salaries and other short-term benefits	3,039,848	2,131,846

The Group determines key management personnel as the members of board of directors, general manager and assistant general managers. Amount of benefits provided to key management personnel includes salary, Social Security Institution employer premium, and unemployment employer premium and attendance fee paid to members of Board of Directors.

### NOTE 27 - CHARACTERISTICS AND LEVEL OF RISKS RESULTING FROM FINANCIAL INSTRUMENTS

#### *Financial risk management*

The Group's activities expose it to a variety of financial risks; these risks are market risk including the effects of changes in debt and equity market prices, foreign currency exchange rates, fair value interest rate risk and cash flow interest rate risk, credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Financial risk management is carried out by individual subsidiaries under policies, which are approved by their Board of Directors within the limits of general principles set by the Company.

#### **Capital risk management**

The Group manages its capital to ensure that it will be able to continue as a going concern while generating the return to stakeholders through the optimisation of the debt and the equity balance.

The management of the Group evaluates the cost of capital and the risks associated with each class of capital. As a part of this evaluation, the management considers the cost of capital and the risks associated with each class of capital and present the evaluations subject to the decision of the Board of Directors to the Board of Directors. Based on the evaluations of the management and the Board of Directors, the Group aims to balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The Group controls its capital using total liabilities/total capital ratio. This ratio is the calculated as net debt divided by the total capital amount. Net debt is calculated as total liability amount (comprises of financial liabilities, leasing and trade payables as presented in the balance sheet) less cash and cash equivalents. Total capital is calculated as equity plus the net debt amount as presented in the balance sheet.

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 27 - CHARACTERISTICS AND LEVEL OF RISKS RESULTING FROM FINANCIAL INSTRUMENTS (Continued)

	31 December 2010	31 December 2009
Total liabilities	113,123,677	99,394,374
Less: Cash and cash equivalents (Note 5)	(1,235,155)	(670,678)
Net liability	111,888,522	98,723,696
Total equity	110,839,472	114,723,656
Total capital	413,843,587	309,427,072
Net debt/total capital ratio	%27	%32

#### **Credit risk management**

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. A significant part of the trade receivables are comprised of due from dealers. The Group monitors the credit risk arising from the transactions with dealers via the control system.

The Direct Debit System ("DDS") is applied for receivables related to the domestic vehicle sales to the dealers. Accordingly, receivables within the predetermined limits agreed with the banks are risk free and collected on due dates. DDS used in the collection of receivables of the dealers is an effective method to reduce credit risk.

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira (“TL”) unless otherwise stated.)

### NOTE 27 - CHARACTERISTICS AND LEVEL OF RISKS RESULTING FROM FINANCIAL INSTRUMENTS (Continued)

#### Credit risk management (continued)

##### Credit risk of financial instruments

<u>31 December 2010</u>	<u>Receivables</u>				<u>Bank Deposits</u>	<u>Derivatives</u>	<u>Other</u>
	<u>Trade Receivables</u>		<u>Other Receivables</u>				
	<u>Related Party</u>	<u>Third Party</u>	<u>Related Party</u>	<u>Third Party</u>			
Maximum credit risk as of reporting date (*) (A+B+C+D+E)	809,022	48,573,230	476,834	-	1,227,680	-	7,475
- The part of maximum risk under guarantee with collateral etc.	-	25,638,131	-	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	809,022	43,731,765	-	-	-	-	-
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired.	-	-	-	-	-	-	-
C. Carrying value of financial assets that are past due but not impaired	-	4,841,465	-	-	-	-	-
- The part under guarantee with collateral etc.	-	234,989	-	-	-	-	-
D. Net book value of the assets impaired	-	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	1,909,168	-	-	-	-	-
- Impairment (-)	-	(1,909,168)	-	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-
- Not due (gross carrying amount)	-	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-
E. Off balance sheet items with credit risk	-	-	-	-	-	-	-

(\*) Items that increase the credit reliability, such as; letter of guarantees received, are not taken into account in the calculation.

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 27 - CHARACTERISTICS AND LEVEL OF RISKS RESULTING FROM FINANCIAL INSTRUMENTS (Continued)

#### Credit risk management (continued)

##### Credit risk of financial instruments

	Receivables						Bank Deposits	Derivatives	Other	
	Trade Receivables		Other Receivables							
	Related Party	Third Party	Related Party	Third Party						
<b>31 December 2009</b>										
Maximum credit risk as of reporting date (*) (A+B+C+D+E)	-	28,262,631	1,148,188	-	-	664,834	-	5,844		
- The part of maximum risk under guarantee with collateral etc.	-	20,078,839	-	-	-	-	-	-		
A. Net book value of financial assets that are neither past due nor impaired	-	19,832,381	-	-	-	664,834	-	5,844		
B. Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired.	-	-	-	-	-	-	-	-		
C. Carrying value of financial assets that are past due but not impaired	-	8,430,250	1,148,188	-	-	-	-	-		
- The part under guarantee with collateral, etc.	-	1,829,179	-	-	-	-	-	-		
D. Net book value of the assets impaired	-	-	-	-	-	-	-	-		
- Overdue (gross carrying amount)	-	-	-	-	-	-	-	-		
- Impairment (-)	-	-	-	-	-	-	-	-		
- The part of net value under guarantee with collateral, etc.	-	-	-	-	-	-	-	-		
- Not due (gross carrying amount)	-	-	-	-	-	-	-	-		
- Impairment (-)	-	-	-	-	-	-	-	-		
- The part of net value under guarantee with collateral, etc.	-	-	-	-	-	-	-	-		
E. Off balance sheet items with credit risk	-	-	-	-	-	-	-	-		

(\*) Items that increase the credit reliability, such as; letter of guarantees received, are not taken into account in the calculation.

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 27 - CHARACTERISTICS AND LEVEL OF RISKS RESULTING FROM FINANCIAL INSTRUMENTS (Continued)

#### Credit risk management (continued)

Aging analysis for overdue receivables is as follows:

	31 December 2010	31 December 2009
1-30 days overdue	3,125,320	4,734,088
1-3 months overdue	1,078,669	1,137,790
3-12 months overdue	494,410	2,033,596
1-5 years overdue	143,066	524,776
<b>Total overdue receivables</b>	<b>4,841,465</b>	<b>8,430,250</b>
<b>The part under guarantee with collateral</b>	<b>234,989</b>	<b>1,829,179</b>

#### Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities.

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 27 - CHARACTERISTICS AND LEVEL OF RISKS RESULTING FROM FINANCIAL INSTRUMENTS (Continued)

#### Liquidity risk management (Continued)

31 December 2010

<u>Agreement terms</u>	<u>Net book value</u>	<u>Agreed total cash outflows (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
<b>Non-derivative financial liabilities:</b>						
Bank loans	102,851,555	114,220,329	22,444,544	24,943,907	66,831,878	-
Factoring payables	10,272,122	10,272,122	10,272,122	-	-	-
Trade payables	108,520,823	108,698,064	103,940,636	4,757,428	-	-
Payables to related parties	56,796,608	56,796,608	56,751,125	45,483	-	-
<b>Total liabilities</b>	<b>278,441,108</b>	<b>289,987,123</b>	<b>193,408,427</b>	<b>29,746,818</b>	<b>66,831,878</b>	<b>-</b>

31 December 2009

<u>Agreement terms</u>	<u>Net book value</u>	<u>Agreed total cash outflows (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
<b>Non-derivative financial liabilities:</b>						
Bank loans	79,394,374	81,650,480	47,565,183	13,881,576	20,203,721	-
Factoring payables	20,000,000	20,000,000	20,000,000	-	-	-
Trade payables	68,313,398	68,378,790	65,361,982	3,016,808	-	-
Payables to related parties	13,530,484	13,530,484	12,222,983	1,307,501	-	-
<b>Total liabilities</b>	<b>181,238,256</b>	<b>183,559,754</b>	<b>145,150,148</b>	<b>18,205,885</b>	<b>20,203,721</b>	<b>-</b>

#### Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates.

At a Group level market risk exposures are measured by sensitivity analysis.

There has been no change to the Group's exposure to market risks or the manner which it manages and measures the risk.

#### Foreign currency risk management

Transactions involving foreign currency balances expose the Group to foreign currency risk. The foreign currency denominated assets and liabilities of monetary and non-monetary items are as follows:

# KARSAN OTOMOTİV SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 27 - CHARACTERISTICS AND LEVEL OF RISKS RESULTING FROM FINANCIAL INSTRUMENTS (Continued)

#### Foreign currency risk management (Continued)

	31 December 2010				
	TL Equivalent (Functional currency)	USD	EUR	GBP	DKK
1. Trade Receivables	10,706,154	18,716	5,210,687	-	-
2a. Monetary Financial Assets	971,265	-	473,996	-	-
2b. Non-monetary Financial Assets	-	-	-	-	-
3. Other	6,675,713	1,323,670	2,259,196	-	-
4. CURRENT ASSETS	18,353,132	1,342,386	7,943,879	-	-
5. Trade Receivables	-	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-	-
6b. Non-monetary Financial Assets	-	-	-	-	-
7. Other	-	-	-	-	-
8. NON-CURRENT ASSETS	-	-	-	-	-
9. TOTAL ASSETS	18,353,132	1,342,386	7,943,879	-	-
10. Trade Payables	112,453,949	3,606,296	52,144,517	12,261	-
11. Financial Liabilities	36,069,061	2,121,576	16,001,711	-	-
12a. Other monetary liabilities	853,198	-	416,377	-	-
12b. Other non-monetary liabilities	-	-	-	-	-
13. CURRENT LIABILITIES	149,376,208	5,727,872	68,562,605	12,261	-
14. Trade payables	-	-	-	-	-
15. Financial liabilities	12,321,921	-	6,013,333	-	-
16a. Other monetary liabilities	423,485	-	206,669	-	-
16b. Other non-monetary liabilities	-	-	-	-	-
17. NON-CURRENT LIABILITIES	12,745,406	-	6,220,002	-	-
18. TOTAL LIABILITIES	162,121,613	5,727,872	74,782,606	12,261	-
19. Net Asset / (Liability) Position of the Off- Balance-Sheet Foreign Currency Derivatives (19a-19b)	-	-	-	-	-
19.a Off-balance sheet foreign currency derivative assets	-	-	-	-	-
19b. Off-balance sheet foreign currency derivative liabilities	-	-	-	-	-
20. Net Foreign currency asset / (liability) Position	(143,768,480)	(4,385,484)	(66,838,727)	(12,261)	-
21. Net Foreign currency asset / (liability) Position of the Monetary Items (1+2a+5+6a-10-11-12a-14-15-16a)	(150,444,196)	(5,709,156)	(69,097,923)	(12,261)	-
22. Fair value of foreign currency hedged financial assets	-	-	-	-	-
23. Hedged foreign currency assets	-	-	-	-	-
24. Hedged foreign currency liabilities	-	-	-	-	-
25. Exports	278,027,321	95,236	142,071,668	46,306	-
26. Imports	340,480,738	15,251,993	160,123,216	23,891	1,570,930

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 27 - CHARACTERISTICS AND LEVEL OF RISKS RESULTING FROM FINANCIAL INSTRUMENTS (Continued)

#### Foreign currency risk management (Continued)

	31 December 2009				
	TL Equivalent (Functional currency)	USD	EUR	GBP	DKK
1. Trade Receivables	6,462,312	17,007	2,979,542	-	-
2a. Monetary Financial Assets	151,733	-	70,237	-	-
2b. Non-monetary Financial Assets	-	-	-	-	-
3. Other	-	-	-	-	-
<b>4. CURRENT ASSETS</b>	<b>6,614,045</b>	<b>17,007</b>	<b>3,049,779</b>	<b>-</b>	<b>-</b>
5. Trade Receivables	-	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-	-
6b. Non-monetary Financial Assets	-	-	-	-	-
7. Other	-	-	-	-	-
<b>8. NON-CURRENT ASSETS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>9. TOTAL ASSETS</b>	<b>6,614,045</b>	<b>17,007</b>	<b>3,049,779</b>	<b>-</b>	<b>-</b>
10. Trade Payables	58,504,393	638,523	26,492,236	108,200	183,572
11. Financial Liabilities	23,414,311	107,092	10,763,812	-	-
12a. Other monetary liabilities	947,041	-	438,384	-	-
12b. Other non-monetary liabilities	-	-	-	-	-
<b>13. CURRENT LIABILITIES</b>	<b>82,865,745</b>	<b>745,615</b>	<b>37,694,432</b>	<b>108,200</b>	<b>183,572</b>
14. Trade payables	-	-	-	-	-
15. Financial liabilities	19,639,091	-	9,090,909	-	-
16a. Other monetary liabilities	-	-	-	-	-
16b. Other non-monetary liabilities	-	-	-	-	-
<b>17. NON-CURRENT LIABILITIES</b>	<b>19,639,091</b>	<b>-</b>	<b>9,090,909</b>	<b>-</b>	<b>-</b>
<b>18. TOTAL LIABILITIES</b>	<b>102,504,836</b>	<b>745,615</b>	<b>46,785,341</b>	<b>108,200</b>	<b>183,572</b>
19. Net Asset / (Liability) Position of the Off-Balance-Sheet Foreign Currency Derivatives (19a-19b)	-	-	-	-	-
19.a Off-balance sheet foreign currency derivative assets	-	-	-	-	-
19b. Off-balance sheet foreign currency derivative liabilities	-	-	-	-	-
20. Net Foreign currency asset / (liability) Position	(95,890,791)	(728,608)	(43,735,562)	(108,200)	(183,572)
21. Net Foreign currency asset / (liability) Position of the Monetary Items (1+2a+5+6a-10-11-12a-14-15-16a)	(95,890,791)	(728,608)	(43,735,562)	(108,200)	(183,572)
22. Fair value of foreign currency hedged financial assets	-	-	-	-	-
23. Hedged foreign currency assets	-	-	-	-	-
24 Hedged foreign currency liabilities	-	-	-	-	-
25. Exports	126,744,085	-	58,402,998	-	-
26. Imports	126,586,474	-	58,771,516	-	-



# KARSAN OTOMOTİV SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 27 - CHARACTERISTICS AND LEVEL OF RISKS RESULTING FROM FINANCIAL INSTRUMENTS (Continued)

#### Foreign currency risk management (Continued)

	31 December 2010	31 December 2009
Total Export	278,027,321	126,744,085
Total Import	340,480,738	126,586,474
Total Hedging Ratio of Foreign Currency Liability	%0	%0

As of 31 December 2010 foreign currency denominated asset and liability balances were converted with the following exchange rates; TL1.5460 = USD1, TL2.0491 = EUR1, TL2.3886 = GBP1 and TL0.2749 = DKK1 (31 December 2009: TL1.5057 = USD1, TL2.1603 = EUR1, TL2.3892 = GBP1 and TL0.2902 = DKK1).

#### Foreign currency sensitivity

The Group undertakes certain transactions denominated in EUR, USD, GBP and DKK, hence exposures to certain exchange rate fluctuations arise.

The following table details the Group's sensitivity to a 10% increase and decrease in TL against EUR, USD, GBP and DKK. 10% is used in, the reporting of currency risk to the key management and it represents the management's expectation on the potential exchange currency fluctuations. Sensitivity analysis related to the foreign currency exposure risk of the Group is determined according to the change at the beginning of the fiscal year and is kept stable throughout the reporting period. Negative value represents the effect of the 10% increase in value of EUR, USD, GBP and DKK against TL on the income statement.

	31 December 2010	
	Profit/Loss Appreciation of foreign currency	Profit/Loss Depreciation of foreign currency
<i>10 % change in USD against TL:</i>		
1- USD net asset/liability	(677,996)	677,996
2- Part of hedged from the USD risk (-)	-	-
<b>3- USD Net Effect (1+2)</b>	<b>(677,996)</b>	<b>677,996</b>
<i>10 % change in Euro against TL:</i>		
4- EUR net asset/liability	(13,695,924)	13,695,924
5- Part of hedged from the EUR risk (-)	-	-
<b>6- Net EUR Effect (4+5)</b>	<b>(13,695,924)</b>	<b>13,695,924</b>
<i>10 % change in GBP against TL:</i>		
7- GBP net asset/liability	(2,929)	2,929
8- Part of hedged from the GBP risk (-)	-	-
<b>9- Net GBP Effect (7+8)</b>	<b>(2,929)</b>	<b>2,929</b>
<b>Total (3+6+9)</b>	<b>(14,376,849)</b>	<b>14,376,849</b>

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 27 - CHARACTERISTICS AND LEVEL OF RISKS RESULTING FROM FINANCIAL INSTRUMENTS (Continued)

#### Foreign currency risk management (Continued)

	31 December 2009	
	<u>Profit/Loss</u> Appreciation of foreign currency	<u>Profit/Loss</u> Depreciation of foreign currency
<i>10 % change in USD against TL:</i>		
1- USD net asset/liability	(109,707)	109,707
2- Part of hedged from the USD risk (-)	-	-
<b>3- USD Net Effect (1+2)</b>	<b>(109,707)</b>	<b>109,707</b>
<i>10 % change in Euro against TL:</i>		
4- EUR net asset/liability	(9,448,193)	9,448,193
5- Part of hedged from the EUR risk (-)	-	-
<b>6- Net EUR Effect (4+5)</b>	<b>(9,448,193)</b>	<b>9,448,193</b>
<i>10 % change in DKK against TL:</i>		
7- DKK net asset/liability	(5,328)	5,328
8- Part of hedged from the DKK risk (-)	-	-
<b>9- Net DKK Effect (7+8)</b>	<b>(5,328)</b>	<b>5,328</b>
<i>10 % change in GBP against TL:</i>		
10- GBP net asset/liability	(25,851)	25,851
11- Part of hedged from the GBP risk (-)	-	-
<b>12- Net GBP Effect (10+11)</b>	<b>(25,851)</b>	<b>25,851</b>
<b>Total (3+6+9+12)</b>	<b>(9,589,079)</b>	<b>9,589,079</b>

#### Interest-rate risk management

Financial liabilities based on fixed and floating interest rates expose the Group to interest rate risk.

Interest rates on financial liabilities to which the Group is exposed to are detailed at Note 7, financial liabilities.

#### **Interest rate sensitivity**

The sensitivity analyses below have been determined based on the exposure to interest rates at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 0,5% basis point increase or decrease on Euribor is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

If Euribor had been 0.5 points higher and all other variables were held constant:

Loss for the period ended 31 December 2010 would increase by TL39,857 (31 December 2009: decrease in profit by TL61,645). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings. If Euribor had been 0.5 points lower, the loss of the Group for period ended will decrease by the same amount.

# KARSAN OTOMOTİV SANAYİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 27 - CHARACTERISTICS AND LEVEL OF RISKS RESULTING FROM FINANCIAL INSTRUMENTS (Continued)

#### Interest Rate Risk Management (Continued)

The Group's interest rate sensitive financial instruments are as follows:

<b>Financial instruments with fixed interest rates</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
Financial assets	100,000	-
- <i>Designated as fair value / through profit or loss(*)</i>	100,000	-
- <i>Available-for-sale financial assets</i>	-	-
Financial liabilities	77,719,159	59,659,016
<b>Financial instruments with floating interest rates</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
Financial assets	-	-
Financial liabilities	25,132,396	39,735,358

(\*) Financial assets designated as fair value through profit or loss consists of fixed interest rate time deposits with maturities less than three months (Note 5).

### NOTE 28 - FINANCIAL INSTRUMENTS

#### **Fair value of financial instruments**

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

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

#### Monetary assets:

The fair values of certain financial assets carried at cost, including cash and amounts due from banks are considered to approximate their respective carrying values due to their short-term nature.

The carrying values of trade receivables are estimated to be their fair values.

Fair value of financial assets held to maturity determines with market prices or in case of the price is not calculated with basis on market prices of securities quoted for similar qualified in interest, maturity and other conditions.

Fair value of given advances and loans to customers is calculated by determining cash flows discounted with current market interest rate. Carrying value of variable interest rate loans approximately assumed as fair value.

#### Financial Liabilities

The fair values of short-term bank loans and trade payables are considered to approximate their book values due to their short-term nature. Fair value of long-term financial liabilities is calculated by determining cash flows discounted with current market interest rate.

# KARSAN OTOMOTİV SANAYİİ VE TİCARET A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts are expressed in Turkish lira ("TL") unless otherwise stated.)

### NOTE 28 - FINANCIAL INSTRUMENTS (Continued)

#### Types and fair values of financial instruments

31 December 2010	Financial assets at amortised cost	Loans and receivables	Available for sale financial assets	Financial liabilities at amortised cost	Carrying value	Fair Value	Note
<u>Financial assets</u>							
Cash and cash equivalents	1,235,155	-	-	-	-	1,235,155	5
Trade receivables	-	48,573,230	-	-	48,573,230	48,573,230	8
Trade receivables from related parties	-	476,834	-	-	476,834	476,834	26
Other financial assets	-	-	2,114	-	2,114	2,114	6
<u>Financial liabilities</u>							
Short-term financial liabilities	-	-	-	57,170,420	57,170,420	57,170,420	7
Long-term financial liabilities	-	-	-	55,953,257	55,953,257	66,227,367	7
Trade payables	-	-	-	108,520,823	108,520,823	108,520,823	8
Payables to related parties	-	-	-	56,796,608	56,796,608	56,796,608	26
31 December 2009	Financial assets at amortised cost	Loans and receivables	Available for sale financial assets	Financial liabilities at amortised cost	Carrying value	Fair Value	Note
<u>Financial assets</u>							
Cash and cash equivalents	670,678	-	-	-	670,678	670,678	5
Trade receivables	-	28,262,631	-	-	28,262,631	28,262,631	8
Trade receivables from related parties	-	1,148,188	-	-	1,148,188	1,148,188	26
Other financial assets	-	-	2,114	-	2,114	2,114	7
<u>Financial liabilities</u>							
Short-term financial liabilities	-	-	-	79,755,283	79,755,283	79,755,283	7
Long-term financial liabilities	-	-	-	19,639,091	19,639,091	19,923,285	7
Trade payables	-	-	-	68,313,398	68,313,398	68,313,398	8
Payables to related parties	-	-	-	13,530,484	13,530,484	13,530,484	26