

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş.
AND SUBSIDIARIES

CONVENIENCE TRANSLATION INTO ENGLISH OF
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE INTERIM PERIOD 1 JANUARY - 30 SEPTEMBER 2016
(ORIGINALLY ISSUED IN TURKISH)

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND IT'S SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 SEPTEMBER 2016

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

ASSETS	Notes	Reviewed Current Period 30.09.2016	Audited Previous Period 31.12.2015
CURRENT ASSETS		193.855.021	177.197.627
Cash and Cash Equivalents	6	17.110.389	16.981.050
Financial Investments	7	1.035.918	-
Trade Receivables		77.148.122	76.199.845
- Trade Receivables from Related Parties	9	486.616	455.869
- Trade Receivables from 3rd Parties	9	76.661.506	75.743.976
Other Receivables		1.649.118	7.979.177
- Other Receivables from Related Parties		-	-
- Other Receivables from 3rd Parties	10	1.649.118	7.979.177
Inventories	11	75.379.607	59.656.872
Prepaid Expenses	12	7.454.079	5.943.978
Assets Related with Current Period Tax	22	179.577	2.193
Other Current Assets	20	13.898.211	10.434.512
NON-CURRENT ASSETS		62.232.858	51.477.313
Other Receivables		30.846	29.696
- Other Receivables from Related Parties		-	-
- Other Receivables from 3rd Parties	10	30.846	29.696
Investment Property	14	6.659.000	6.659.000
Tangible Fixed Assets	15	38.308.563	33.486.482
Intangible Fixed Assets	16	8.832.818	3.792.900
- Other Intangible Fixed Assets		8.832.818	3.792.900
Prepaid Expenses	12	1.383.578	1.124.787
Deferred Tax Assets	22	7.018.053	6.384.448
TOTAL ASSETS		256.087.879	228.674.940

The accompanying accounting policies and explanatory notes are an integral part of these statements

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND IT'S SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 SEPTEMBER 2016

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

	Notes	Reviewed Current Period 30.09.2016	Audited Previous Period 31.12.2015
LIABILITIES			
SHORT-TERM LIABILITIES		136.302.212	111.129.914
Short-Term Borrowings	8	102.745.204	51.003.001
Current Part of Long Term Borrowings	8	7.021.638	3.597.900
Other Financial Liabilities			
Trade Payables		18.583.920	45.778.579
- Due to Related Parties	9	-	-
- Other Trade Payables	9	18.583.920	45.778.579
Employee Benefits	19	741.667	755.294
Other Payables		569.239	1.575.274
- Due to Related Parties		-	-
- Other Trade Payables	10	569.239	1.575.274
Government Grants			
Deferred Income	12	5.154.657	7.020.798
Tax Liability for the Period	22		
Short-Term Provisions		1.485.887	1.399.068
- Short-Term Provisions related to Employee Benefits	19	677.670	562.124
- Other Short-Term Provisions	18	808.217	836.944
LONG-TERM LIABILITIES		49.386.810	54.865.376
Long-Term Borrowings	8	40.920.097	47.741.538
Long-Term Provisions		3.380.880	2.609.471
- Long-Term Provisions related to Employee Benefits	19	3.380.880	2.609.471
- Other Long-Term Provisions		-	-
Deferred Tax Liability	22	5.085.833	4.514.367
EQUITY CAPITAL	21	70.398.857	62.679.650
EQUITY CAPITAL OF PARENT COMPANY	21	70.374.530	62.661.740
Paid-in Capital	21	25.000.000	25.000.000
Sermaye Düzeltme Farkları			
Reacquired Shares (-)	21	(928.650)	(38.827)
Other Comprehensive Income or Expenses not to be reclassified on Profit or Loss		9.568.067	9.737.768
Revaluation and Measurement Income / (Loss)		9.568.067	9.737.768
- Tangible Fixed Asset Revaluation Increase	21	9.976.331	9.976.331
- Identified Benefit Plans Reclassification Income / (Loss)	21	(408.264)	(238.563)
- Other Income / (Loss)			
Other Comprehensive Income or Expenses to be reclassified on Profit or Loss			
- Foreign Currency Conversion Adjustments			
- Hedging Gain / (Loss)			
- Revaluation and Reclassification Income / (Loss)			
- Other Income / (Loss)			
Restricted Reserves	21	3.150.869	2.061.453
The Merge Effect of Entities subject to Common Control	21	(1.759.039)	(1.759.039)
Retained Earnings	21	26.570.969	9.039.516
Net Profit / (Loss) of the Period	23	8.772.314	18.620.869
NON-CONTROLLING SHARES		24.327	17.910
TOTAL LIABILITIES		256.087.879	228.674.940

The accompanying accounting policies and explanatory notes are an integral part of these statements

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND IT'S SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE PERIOD BETWEEN 01.01.2016 - 30.09.2016
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	Reviewed			
		Current Period	Previous Period	Current Period	Previous Period
		01.01.2016 - 30.09.2016	01.01.2015 - 30.09.2015	01.07.2016 - 30.09.2016	01.07.2015 - 30.09.2015
<u>ONGOING ACTIVITIES</u>					
Revenue	5	96.406.780	233.663.837	28.107.072	96.868.315
Cost of Sales (-)	5	(54.712.474)	(173.170.568)	(16.997.872)	(66.167.712)
GROSS PROFIT / (LOSS)		41.694.306	60.493.269	11.109.200	30.700.603
General Administrative Expenses (-)	5	(8.570.620)	(14.068.503)	(2.679.054)	(9.411.341)
Marketing Expenses (-)	5	(10.494.011)	(9.670.643)	(2.553.874)	(3.974.012)
Research and Development Expenses (-)		(1.095.339)	-	(508.047)	-
Other Income from Operations	5	6.041.455	19.727.126	2.865.427	9.578.703
Other Expenses from Operations (-)	5	(3.279.612)	(14.092.344)	(577.591)	(6.111.512)
OPERATING PROFIT / (LOSS)		24.296.179	42.388.905	7.656.061	20.782.441
Income from Investing Activities	5	490.589	195.203	159.250	47.564
Expenses from Investing Activities (-)	5	-	-	-	-
OPERATING PROFIT BEFORE FINANCIAL INCOME AND EXPENSES		24.786.768	42.584.108	7.815.311	20.830.005
Financial Income	5	2.128.933	5.715.290	682.823	2.113.512
Financial Expenses (-)	5	(16.941.152)	(29.189.477)	(7.043.373)	(14.575.893)
PROFIT / (LOSS) BEFORE PROVISION FOR TAXES		9.974.549	19.109.921	1.454.761	8.367.624
Tax Income / (Expense) from Operating Activities		(1.208.652)	(4.277.714)	114.982	(2.121.825)
- Tax for Period	22	(1.228.367)	(6.106.363)	88.846	(3.928.902)
- Deferred Tax Income / (Expense)	22	19.715	1.828.649	26.136	1.807.077
NET PROFIT / (LOSS) FOR THE PERIOD		8.765.897	14.832.207	1.569.743	6.245.799
Distribution of Period Profit / (Loss)		8.765.897	14.832.207	1.569.743	6.245.799
- Non-Controlling Interests		(6.417)	572.114	(11.026)	(232.875)
- Parent Compant Shares	23	8.772.314	14.260.093	1.580.769	6.478.674
Earnings Per Share					
- Earnings Per Share from Ongoing Operations		0,35	0,57	0,06	0,26
- Diluated Earnings Per Share from Ongoing Operations		0,35	0,57	0,06	0,26
NET PROFIT / (LOSS)		8.765.897	14.832.207	1.569.743	6.245.799
Items not to be Reclassified in Profit or Loss		(169.701)	99.930	(52.887)	(41.468)
Increase / (Decrease) from Revaluation of Tangible Fixed Assets	21				
Increase / (Decrease) from Revaluation of Intangible Fixed Assets					
Defined Benefit Plans Remeasurement Gains / (Losses)		(212.126)	124.912	(66.108)	(47.722)
Tax Income/(Loss) related to Identified Benefit Plans Remeasurement Income / (Loss)					
Tax Income/(Loss) related to Other Comprehensive Income not to be Reclassified in Profit or Loss		42.425	(24.982)	13.221	6.254
- Current Tax (Expense) / Income					
- Deferred Tax (Expense) / Income		42.425	(24.982)	13.221	6.254
Items to be Reclassified in Profit or Loss		-	-	-	-
Tax Income/(Loss) related to Other Comprehensive Income to be Reclassified in Profit or Loss		-	-	-	-
- Current Tax (Expense) / Income					
- Deferred Tax (Expense) / Income		-	-	-	-
OTHER COMPREHENSOVE INCOME (AFTER TAX)		(169.701)	99.930	(52.887)	(41.468)
TOTAL COMPREHENSIVE INCOME		8.596.196	14.932.137	1.516.856	6.204.331
Comprehensive Income Distribution :		8.596.196	14.932.137	1.516.856	6.204.331
- Non-Controlling Shares		(7.071)	580.833	(12.421)	(239.320)
- Parent Company Shares		8.603.267	14.351.304	1.529.277	6.443.651

The accompanying accounting policies and explanatory notes are an integral part of these statements

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND IT'S SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD BETWEEN 01.01.2016 - 30.09.2016

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

			Other Comprehensive Income / (Loss) Not to be Reclassified on Profit or Loss				Retained Earnings				
Notes	Paid-in Capital	Reaccured Shares	Identified Benefit Plans Reclassification Income / (Loss)	Tangible Fixed Assets Revaluation Increase	The Merge Effect of Entities subject to Common Control	Restricted Reserves	Retained Profit / (Loss)	Net Period Profit / (Loss)	Equity Holders of the Parent	Non Controlling Shares	Equity
PREVIOUS PERIOD											
21	25.000.000	(38.827)	(309.930)	7.309.143	(1.759.039)	2.108.305	(1.375.639)	9.311.684	40.245.697	3.116.498	43.362.195
							9.311.684	(9.311.684)	-		-
21			99.930					14.260.093	14.360.023		14.360.023
						(46.852)	2.000.870		1.954.018	(2.182.858)	(228.840)
21	25.000.000	(38.827)	(210.000)	7.309.143	(1.759.039)	2.061.453	9.936.915	14.260.093	56.559.738	933.640	57.493.378
CURRENT PERIOD											
21	25.000.000	(38.827)	(238.563)	9.976.331	(1.759.039)	2.061.453	9.039.516	18.620.869	62.661.740	17.910	62.679.650
	-	-	-	-	-	-	18.620.869	(18.620.869)	-		-
21	-	-	(169.701)	-	-	1.089.416	(1.089.416)	8.772.314	8.602.613	6.417	8.609.030
		(889.823)							(889.823)		(889.823)
21	25.000.000	(928.650)	(408.264)	9.976.331	(1.759.039)	3.150.869	26.570.969	8.772.314	70.374.530	24.327	70.398.857

The accompanying accounting policies and explanatory notes are an integral part of these statements

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND IT'S SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW FOR THE PERIOD BETWEEN 01.01.2016 - 30.09.2016
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	Reviewed	
		Current Period	Previous Period
		01.01.2016 - 30.09.2016	01.01.2015 - 30.09.2015
A. CASH FLOWS FROM OPERATING ACTIVITIES		(33.678.236)	(27.625.042)
Profit / (Loss) for Period		8.765.897	14.832.207
Adjustments to Reconcile Net Profit / (Loss) :		3.605.438	6.073.873
- Depreciation and Amortization		1.454.644	1.254.676
- Impairments / Reversals	11	(6.269)	8.543
- Changes in Provisions	18	853.676	1.777.349
- Interest Income and Expense		2.869.673	82.322
- Unrealized Foreign Currency Conversion Adjustments		(2.780.125)	
- Fair Value (Loss) / Gain			(1.295.471)
- Gain / Loss from Sales of Tangible Fixed Assets		5.187	(27.300)
- Cashflows from Investment or Financing Operations			
- Profit / (Loss) Reconciliations		1.208.652	4.273.754
Changes in Working Capital		(42.177.830)	(38.755.216)
- Increases / (Decreases) in Trade Receivables	9	(948.277)	(25.441.794)
- Increases / (Decreases) in Other Receivables		6.328.909	1.690.632
- Increases / (Decreases) in Inventories	11	(15.722.735)	(10.726.004)
- Increases (Decreases) in Trade Payables	9	(27.194.659)	16.615.788
- Increases (Decreases) in Other Payables		(1.006.035)	3.060.346
- Other Increase / (Decreases) in Working Capital		(3.635.033)	(23.954.184)
Cash Flow from Operating Activities		(29.806.495)	(17.849.136)
Tax Payments / Returns			4.280
Other Cash Inflows / Outflows		(3.871.741)	(9.780.186)
B. CASHLOW PROVIDED BY INVESTING ACTIVITIES		(11.030.066)	(4.720.145)
Proceeds from Sale of Tangible and Intangible Assets	15,16	56.235	179.813
Cash Outflows due to Purchases of Tangible and Intangible Assets	15,16	(11.548.322)	(5.053.248)
Proceeds from Government Promotions			
Interest Collected		409.523	153.290
Tax Payments / Returns			
Other Cash Inflows / Outflows		52.498	
C. CASH FLOW PROVIDED BY FINANCING ACTIVITIES		44.837.641	36.019.480
Cash Outflows from Reacquired Shares and Other Equity Instruments			
Proceeds from Borrowings		133.145.501	166.488.107
Payments of Borrowings		(91.985.696)	(123.099.293)
Financial Lease Payments		(827.426)	(810.894)
Interest Payments		4.505.262	(7.255.355)
Interest Collected			696.915
NET INCREASE / (DECREASE) IN CASH EQUIVALENTS BEFORE FOREIGN CURRENCY CONVERSION ADJUSTMENTS		129.339	3.674.293
D. FOREIGN CURRENCY CONVERSION ADJUSTMENTS EFFECTS ON CASH AND CASH EQUIVALENTS			
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		129.339	3.674.293
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	6	16.981.050	6.743.368
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	6	17.110.389	10.417.661

The accompanying accounting policies and explanatory notes are an integral part of these statements

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016

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

CONTENTS

1. ORGANIZATION AND ACTIVITIES.....	1
2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS.....	2
3. BUSINESS COMBINATIONS.....	6
4. JOINT VENTURES.....	6
5. SEGMENT INFORMATION.....	6
6. CASH AND CASH EQUIVALENTS.....	9
7. FINANCIAL INVESTMENTS.....	9
8. FINANCIAL BORROWINGS.....	9
9. TRADE RECEIVABLES AND PAYABLES.....	12
10. OTHER RECEIVABLES AND PAYABLES.....	14
11. INVENTORIES.....	14
12. PREPAID EXPENSES AND DEFERRED INCOME.....	15
13. INVESTMENTS ACCORDING TO EQUITY METHOD.....	15
14. INVESTMENT PROPERTIES.....	15
15. PROPERTY, PLANT AND EQUIPMENT.....	16
16. INTANGIBLE FIXED ASSETS.....	16
17. GOODWILL.....	16
18. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES.....	16
19. EMPLOYEE BENEFITS.....	18
20. OTHER ASSETS AND LIABILITIES.....	19
21. CAPITAL, RESERVES AND OTHER EQUITY COMPONENTS.....	20
22. INCOME TAXES.....	22
23. EARNING PER SHARE.....	25
24. QUALITY AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS.....	25
25. FINANCIAL INSTRUMENTS (FAIR VALUE OF FINANCIAL RISK MANAGEMENT DISCLOSURES)	30
26. POST BALANCE SHEET EVENTS.....	31
27. DISCLOSURE OF OTHER MATTERS.....	31

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016

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

1. ORGANIZATION AND ACTIVITIES

Katmerciler Araç Üstü Ekipman Sanayi ve Ticaret Anonim Şirketi ("Company") was established in 1985 by registered to İzmir Trade Registry and announced at 1380 numbered and 05.11.1985 dated trade registry gazette.

The Group's head office address : Ataturk Organized Industrial Zone 10032 Sokak No: 10 Çiğli / IZMİR. The Group has a branch which is located in Kızılırmak Mah. 1445 Sok. No: 2b/82 The Pragon İş Merkezi Çukurambar – Çankaya / ANKARA and has a branch which is located in production facility in Malıköy Mah. 23.Cad.No:3 Başkent OSB Sincan Ankara.

The Group also has a liaison office which is located in Küçükbakkalköy Mah. Önder Sk. Panorama Plaza Ataşehir İstanbul.

The Company and its subsidiaries (the "Group") operate in all manner of onboard equipment manufacturing , painting workshop and weld workshop fields. The business segment which details given below underlie Group's reporting by field of activity .

Group 's main activities are as follows :

Painting Work - Painting of vehicle equipment

Weld Work - Onboard equipment weld workshop

Vehicle Equipment Manufacturing- onboard equipment manufacturing for the fire, trash , vacuum , grooving, ecological vehicle , transport vehicle , defense industry vehicles and construction industry vehicles.

Company shares were offered to the public in 2010 and 36,28 % of sheres are trading Istanbul Stock Exchange Inc. (ISE) as of September 30, 2016.

As of 30 September 2016, the total number of people employed by the Group is 308. (31 December 2015: 349).

The ultimate parent of Group is managed by İsmail Katmerci. (Note 21).

The nature of operations and the operation groups of the companies included in consolidation are presented as follows:

Companies included in consolidation:

<u>Company Title</u>	<u>Nature of Business</u>	<u>Establishment Place</u>
Katmerciler Profil San. ve Tic. A.Ş.	Painting Works	Turkey
İspan Otomotiv ve Üst Ekipman Metal ve Makine San. ve Tic. A.Ş.	Weld workshop Onboard equipment	Turkey
Gimkat Araç Üstü Ekipman San. ve Tic. A.Ş.	manufacturing	Turkey

Company does not has any subsidiary whose shares are traded on the stock market.

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016

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

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

A. Basic Standards of Presentation

Summary of basis of presentation of the interim condensed of consolidated financial statements

The Group maintains its books of accounts and prepare its statutory financial statements in accordance with the regulation of Turkish Commercial Code and Tax Legislation.

The accompanying interim condensed consolidated financial statements are based in accordance with Turkish Accounting Standards (“TAS”) issued by Public Oversight Accounting and Auditing Standards Authority of Turkey (“POA”) as set out in the Communiqué serial II, No: 14.1 announcement of Capital Markets Board (“CMB”) dated 13 June 2013 related to “Capital Market Communiqué on Principles Regarding Financial Reporting” (“Communiqué”) which is published in official gazette, no 28676. TAS is composed of Turkish Accounting Standards, Turkish Financial Reporting Standards, appendixes and interpretations.

In accordance with article 5th of the CMB Accounting Standards, companies should apply Turkish Accounting Standards/Turkish Financial Reporting Standards (TAS) and interpretations regarding these standards as adopted by the Public Oversight Accounting and Auditing Standards Authority (“POA”).

Interim condensed consolidated financial statements are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with the Accounting Standards of the POA and are presented in TL.

In order to prepare financial statements in accordance with IFRSs, certain assumptions affecting notes to the financial statements and critical accounting estimations related to assets, liabilities, contingent assets and contingent liabilities are required to be used. Although these estimations are made upon the best afford of the management by interpreting the cyclical circumstances, actual results may differ from the forecasts. Issues that are complex and needs further interpretation, which might have a critical impact on financial statements. There is no change in judgements and critical accounting estimates used in interim condensed consolidated financial statements as of 30 September 2016.

Preparation of Financial Statements in Hyperinflationary Periods

Company’s financial statements are prepared in accordance with Finance Ministry’s inflation accounting legislation until 31 December 2004, inflation accounting application has been terminated since 01 January 2005.

Comparative information, changes in accounting policies and restatement of prior period financial statements

In order to allow the determination of financial position and performance of the Group are prepared in the comparative prior period consolidated financial statements of the current period. In order to comply with the presentation of the consolidated financial statements for the period necessary, comparative figures are reclassified.

Going Concern

The consolidated financial statements including the accounts of the parent company, its subsidiaries, joint ventures and associates have been prepared assuming that the Group will continue as a going concern on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

A. Basic Standards of Presentation (continued)

Offsetting

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

Changes in Turkish Accounting Standards

Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

TFRS 9 - Financial Instruments – Classification and measurement

As amended in December 2012, the new standard is effective for annual periods beginning on or after 1 January 2018. Phase 1 of this new TFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities. The amendments made to TFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

TFRS 15 Revenue from Contracts with Customers

The standard replaces existing TFRS guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which the Company expects to be entitled, rather than fair value and new guidance have been introduced on separating goods and services in a contract and recognizing revenue over time. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under TFRS. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

A. Basic Standards of Presentation (continued)

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to TFRS by the POA, thus they do not constitute part of TFRS. Such standards, interpretations and amendments that are issued by the IASB but not yet issued by the POA are referred to as IFRS or IAS. The Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

IFRS 9 Financial Instruments – Hedge Accounting and amendments to TFRS 9, TFRS 7 and TAS 39 - IFRS 9 (2013)

In November 2013, the IASB issued a new version of IFRS 9, which includes the new hedge accounting requirements and some related amendments to IAS 39 and IFRS 7. Entities may make an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 for all of their hedging transactions. Further, the new standard removes the 1 January 2015 effective date of IFRS 9. The new version of IFRS 9 issued after IFRS 9 (2013) introduces the mandatory effective date of 1 January 2018 for IFRS 9, with early adoption permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

IFRS 9 Financial Instruments (2014)

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from TAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

IFRS 16 Leases

On 13 January 2016, IASB published the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently change IAS 40 Investment Properties. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15-Revenue from Contracts with Customers. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

A. Basic Standards of Presentation (continued)

Amendments to IAS 7 – Disclosure Initiative

IAS 7 Statement of Cash Flows has been amended as part of the IASB’s broader disclosure initiative to improve presentation and disclosure in financial statements. The amendments will require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for periods beginning on or after 1 January 2017, with earlier application permitted. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments are effective for annual periods beginning on or after 1 January 2017. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

IFRS 2 Share-Based Payment has been amended by IASB to improving consistency and resolve some long-standing ambiguities in share-based payment accounting. The amendments cover three accounting areas: i) measurement of cash-settled share-based payments, ii) classification of sharebased payments settled net of tax withholdings; and iii) accounting for modification of a sharebased payment from cash-settled to equity-settled. Also, same approach has been adopted for the measurement of cash-settled share-based payments as equity-settled share-based payments. If certain conditions are met, share-based payments settled net of tax withholdings are accounted for as equity-settled share-based payments. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016

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

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

B. Declaration of Conformity to TAS

The accompanying interim consolidated financial statements are prepared in accordance with Communiqué Serial II, No:14.1, "Principles of Financial Reporting in Capital Markets" ("the Communiqué") published in the Official Gazette numbered 28676 on 13 June 2013.

According to Article 5 of the Communiqué, consolidated financial statements are prepared in accordance with the Turkish Accounting Standards / Turkish Financial Reporting Standards (TAS/IFRS) and its addendum and interpretations issued by Public Oversight Accounting and Auditing Standards Authority ("POAASA"). The accompanying consolidated financial statements and explanatory notes were disclosed in compliant with reporting formats recommended by CMB, including the compulsory explanations.

Interim condensed consolidated financial statements were authorized for issue on November 08, 2016 by the board of directors. General Assembly have the power to amend the financial statements.

C. Summary of Significant Accounting Policies

There is not any changes in significant accounting policies mentioned for the period ended 31 December 2015.

3. BUSINESS COMBINATIONS

None (31.12.2015: None).

4. JOINT VENTURES

None (31.12.2015: None).

5. SEGMENT INFORMATION

Each reportable segment derives its revenues as the types of products and services are as follows;

"On-board equipment production"

On-board equipment production and sales for fire engine, garbage truck, transport vehicle, vehicles for the defense industry and on-board equipment for construction sector.

"Painting Works"

Painting workmanship for on-board equipment.

"Weld Works"

Weld workmanship for on-board equipment.

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016**

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

5. SEGMENT INFORMATION (continued)

30.09.2016	Onboard Equipment Manufacturing	Weld Works	Painting Work	Consolidation Adjustment	Total
Net Non-Group Sales	96.479.115	23.609	11.902	(107.846)	96.406.780
Net In-Group Sales	13.688.929	980.508	989.761	(15.659.198)	-
Net Sales Total	110.168.044	1.004.117	1.001.663	(15.767.044)	96.406.780
Cost of Sales (-)	(70.355.699)	(593.348)	(652.076)	16.888.649	(54.712.474)
Gross Profit	39.812.345	410.769	349.587	1.121.605	41.694.306
Research and Development Expenses (-)	(1.095.339)	-	-	-	(1.095.339)
Marketing, Selling and Distribution Expenses (-)	(10.561.940)	-	-	67.929	(10.494.011)
General Administrations Expense (-)	(8.260.154)	(272.355)	(125.168)	87.057	(8.570.620)
Other Operating Income	2.086.598	41.138	497.034	3.416.685	6.041.455
Other Operating Expense (-)	(601.352)	(328)	(487)	(2.677.445)	(3.279.612)
Operating Profit / (Loss)	21.380.158	179.224	720.966	2.015.831	24.296.179
Income from Investment Operation	28.565	-	-	462.024	490.589
Expense from Investment Operation (-)	-	-	-	-	-
OPERATING PROFIT (LOSS) BEFORE FINANCIAL INCOME AND EXPENSES	21.408.723	179.224	720.966	2.477.855	24.786.768
Financial Income	7.580.980	887	-	(5.452.934)	2.128.933
Financial Expense (-)	(20.663.754)	(1.156)	-	3.723.758	(16.941.152)
PRE-TAX PROFIT (LOSS) FROM ONGOING OPERATIONS	8.325.949	178.955	720.966	748.679	9.974.549
Tax Income / (Expense) from Operating Activities	(1.185.699)	(30.878)	(147.881)	155.806	(1.208.652)
-Tax Income / (Expense)	(1.027.068)	(40.196)	(161.103)	-	(1.228.367)
-Deferred Tax Income / (Expense)	(158.631)	9.318	13.222	155.806	19.715
NET PROFIT / (LOSS)	7.140.250	148.077	573.085	748.679	8.765.897
Investment Expenditures					
Tangible Fixed Assets	6.187.651	-	-	-	6.187.651
Intangible Fixed Assets	5.360.670	-	-	-	5.360.670
Total Investment Expenditures	11.548.322	-	-	-	11.548.322
Amortization	924.738	16.676	100.092	-	1.041.507
Amortization and Depletion	452.204	-	-	(39.067)	413.137
Total Depreciation Expense	1.376.942	16.676	100.092	(39.067)	1.454.644
<u>Other Information</u>					
- Total Assets	258.214.605	1.104.598	15.399.162	(18.630.486)	256.087.879
- Total Liabilities	258.214.605	1.104.598	15.399.162	(18.630.486)	256.087.879

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016

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

5. SEGMENT INFORMATION (continued)

30.09.2015	Onboard Equipment Manufacturing	Weld Works	Painting Work	Consolidation Adjustment	Total
Net Non-Group Sales	233.621.041	28.051	14.745	-	233.663.837
Net In-Group Sales	19.481.802	1.080.500	930.000	(21.492.302)	-
Net Sales Total	253.102.843	1.108.551	944.745	(21.492.302)	233.663.837
Cost of Sales (-)	(193.686.808)	(758.916)	(849.859)	22.125.015	(173.170.568)
Gross Profit	59.416.035	349.635	94.886	632.713	60.493.269
Research and Development Expenses (-)	-	-	-	-	-
Marketing, Selling and Distribution Expense (-)	(9.702.879)	-	-	32.236	(9.670.643)
General Administrations Expense (-)	(13.870.024)	(229.326)	(89.438)	120.285	(14.068.503)
Other Operating Income	20.352.798	79.505	633.728	(1.338.905)	19.727.126
Other Operating Expenses (-)	(14.091.459)	(361)	(524)	-	(14.092.344)
Operating Profit/Loss	42.104.471	199.453	638.652	(553.671)	42.388.905
Income from Investment Operation	188.401	-	6.765	37	195.203
Expense from Investment Operation (-)	-	-	-	-	-
PRE-TAX PROFIT (LOSS) FROM ONGOING OPERATIONS	42.292.872	199.453	645.417	(553.634)	42.584.108
Financial Income	7.365.227	510	-	(1.650.447)	5.715.290
Financial Expense (-)	(31.075.777)	(1.728)	(130)	1.888.158	(29.189.477)
PRE-TAX PROFIT (LOSS) FROM ONGOING OPERATIONS	18.582.322	198.235	645.287	(315.923)	19.109.921
Tax Income / (Expense) from Operating Activities	(4.127.660)	(35.092)	(114.962)	-	(4.277.714)
- Tax Income / (Expense)	(5.924.936)	(40.166)	(141.261)	-	(6.106.363)
- Deferred Tax Income / (Expense)	1.797.276	5.074	26.299	-	1.828.649
NET PROFIT / (LOSS)	14.454.662	163.143	530.325	(315.923)	14.832.207
Investment Expenditures					
Tangible Fixed Assets	3.231.317	-	-	-	3.231.317
Intangible Fixed Assets	1.821.931	-	-	-	1.821.931
Total Investment Expenditures	5.053.248	-	-	-	5.053.248
Amortization	824.542	333	90.869	-	915.744
Amortization and Depletion	394.592	-	-	(55.660)	338.932
Total Depreciation Expense	1.219.134	333	90.869	(55.660)	1.254.676
<u>Other Information</u>					
- Total Assets	260.438.896	811.661	13.342.826	(18.868.530)	255.724.853
- Total Liabilities	260.438.896	811.661	13.342.826	(18.868.530)	255.724.853

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016**

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

6. CASH AND CASH EQUIVALENTS

	<u>30.09.2016</u>	<u>31.12.2015</u>
Cash	118.407	31.476
Banks	16.991.982	16.949.574
- Demand Deposits (*)	16.991.982	16.949.574
TL	11.777.610	8.662.881
USD	1.946.045	1.096.060
EUR	3.268.327	7.190.633
Total	17.110.389	16.981.050

(*) There is amounting to TL 521.309 blocked amount in demand deposits. (31.12.2015 - TL 59.790)

The credit risk analysis of cash and cash equivalents are stated in Note 24.

7. FINANCIAL INVESTMENTS

	<u>30.09.2016</u>		<u>31.12.2015</u>	
Financial Assets Available for Sale	Nominal Value	Book Value	Nominal Value	Book Value
Azimet GBK-Eurobond Debt Instrument Fund	275	359	-	-
Azimet GMA-Multiple Asset Flexible Debt Instrument Fund	700.000	727.024	-	-
Azimet GTF- Primary Debt Instrument Fund	100.000	103.689	-	-
Azimet GBL- Money market Debt Instrument Fund	200.000	204.846	-	-
	1.000.275	1.035.918	-	-

8. FINANCIAL BORROWINGS

	<u>30.09.2016</u>	<u>31.12.2015</u>
a) Bank Loans	91.762.574	75.738.417
b) Principal Repayments of Long Term Loans	7.021.638	3.597.900
c) Issued Bond	49.218.402	20.647.602
d) Financial Lease Obligations	2.684.325	2.358.520
Total	150.686.939	102.342.439

a) Bank Loans30.09.2016

<u>Currency</u>	<u>Average Interest Rate (%)</u>	<u>Short-Term Portion of</u>		
		<u>Short-Term</u>	<u>Long-Term Loans</u>	<u>Long-Term</u>
TL	10,25 - 15,60	11.358.262	3.945.070	20.101.441
USD	4,00 - 4,20	951.779	-	1.738.597
EUR	2,98 - 4,75	40.969.857	3.076.569	16.642.637
Total		53.279.899	7.021.638	38.482.675

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016**

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

8. FINANCIAL BORROWINGS (continued)**a) Bank Loans (continued)**

<u>31.12.2015</u>				
<u>Currency</u>	<u>Average Interest Rate (%)</u>	<u>Short-Term</u>	<u>Short-Term Portion of Long-Term Loans</u>	<u>Long-Term</u>
TL	9,50 - 14,75	6.360.075	2.594.236	25.342.543
USD	3,25 - 4,50	2.181.161	227.062	2.498.805
EUR	3,10 - 4,50	21.024.699	776.602	18.331.134
Total		29.565.935	3.597.900	46.172.482
		<u>30.09.2016</u>	<u>31.12.2015</u>	
Payable within 1 year		60.301.537	33.163.835	
Payable within 1 - 2 years		19.278.710	15.390.827	
Payable within 2 - 3 years		14.162.765	13.806.443	
Payable within 3 - 4 years		5.041.200	16.975.212	
Total		98.784.212	79.336.317	

The fair value of short-and long-term debts are equal to book value because the effect of discounting is immaterial. As of the reporting date, bank loans secured over EUR 600,000, USD 5.000.000 and TL 15.6 million –values of buildings (31.12.2015: EUR 600.000, USD 5.000.000 and TL 15.600.000).

b) Principal Repayments of Long Term Loans

<u>Currency</u>	<u>Average Interest Rate (%)</u>	<u>30.09.2016</u>	<u>31.12.2015</u>
TL	10,25 - 15,60	3.945.070	2.594.236
USD		-	227.062
EUR	2,98 - 4,75	3.076.568	776.602
Total		7.021.638	3.597.900

c) Issued Bonds

<u>30.09.2016</u>				
<u>Currency</u>	<u>Nominal Interest Rate</u>	<u>Term</u>	<u>Nominal Value</u>	<u>Book Value</u>
TL	14,38(*) Annual	10.05.2017	36.000.000	36.984.739
TL	13,94(*) Annual	10.08.2017	12.000.000	12.233.663

(*) The amount of accrued interest is amounting to TL 1.218.402 as of 30.09.2016.

(*) Interest for each coupon calculated according to weighted average of government debt securities consist in ISE and bond outright purchase and sale market within last five workdays and %5,00 addition annual yield. Bond are paid in quarterly and principal will be paid in date of maturity.

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016**

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

8. FINANCIAL BORROWINGS (continued)**c) Issued Bonds (continued)****31.12.2015**

Currency	Nominal Interest Rate (%)	Term	Nominal Value	Book Value
TL	13,21 (*) Annual	01.02.2016	20.000.000	20.647.602

(*) The amount of accrued interest is amounting to TL 647.602 as of 31.12.2015.

(*) Interest for each coupon calculated according to weighted average of government debt securities consist in ISE and bond outright purchase and sale market within last five workdays and %4,00 addition annual yield. Bond are paid in quarterly and principal will be paid in date of maturity.

d) Lease Obligations

<u>Net Value</u>	<u>30.09.2016</u>	<u>31.12.2015</u>
Machinery, Equipment and Installations (net)	2.684.325	2.358.520

Finance lease obligations, shows the unpaid portion of leasing obligations of plant, machinery and equipment acquired through financial leasing.

- The sum of the minimum lease payments and present value

<u>30.09.2016</u>	<u>TL</u> Less than 1 Year	<u>TL</u> More than 1 Year - Less than 5 Years	<u>TL</u> More than 5 Years	<u>TL</u> Total
Amount of Minimum Lease Payments				
TL Denominated Finance Leases	290.651	2.694.474		2.985.125
Total	290.651	2.694.474		2.985.125
Present Value of Payments				
TL Denominated Finance Leases	246.904	2.437.421		2.684.325
Total	246.904	2.437.421		2.684.325
<u>31.12.2015</u>	<u>TL</u> Less than 1 Year	<u>TL</u> More than 1 Year - Less than 5 Years	<u>TL</u> More than 5 Years	<u>TL</u> Total
Amount of Minimum Lease Payments				
TL Denominated Finance Leases	900.712	1.687.323		2.588.035
Total	900.712	1.687.323		2.588.035
Present Value of Payments				
TL Denominated Finance Leases	789.461	1.569.059		2.358.520
Total	789.461	1.569.059		2.358.520

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016**

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

8. FINANCIAL BORROWINGS (continued)**d) Lease Obligations (continued):**

Financial leasing related with purchasing of machinery and fixtures whose rental period of 2 years. Company does not have option to buy those machinery and fixtures. The Company's obligations under finance leases, the lessor of the leased asset is secured by property right on.

Convention relating to the leasing transactions on interest rates are fixed for the entire rental period. Contract average effective interest rate is about 5% annually.

9. TRADE RECEIVABLES AND PAYABLES**a) Trade Receivables:**

At balance sheet date, the details of Group's trade receivables are as follows:

<u>Short-Term Trade Receivables</u>	<u>30.09.2016</u>	<u>31.12.2015</u>
Customers	66.681.827	64.892.194
Postdated Checks	10.050.442	11.044.373
Less: Unaccrued Finance Income	(70.763)	(192.591)
Doubtful Trade Receivables (*)	2.800.233	2.721.528
Less: Provision for Doubtful Trade Receivables	(2.800.233)	(2.721.528)
Sub Total	76.661.506	75.743.976
- Trade Receivables from Related Parties	486.616	455.869
Total	77.148.122	76.199.845

Customers, Notes Receivables ve Postdated Check maturity details are as follows:

<u>Customers, Notes Receivables and Postdated Check</u>	<u>30.09.2016</u>	<u>31.12.2015</u>
Maturity between 1 – 3 Months	46.055.775	49.162.090
Maturity between 3 – 6 Months	20.452.845	22.832.437
Maturity between 6 – 9 Months	10.710.265	4.397.909
Total	77.218.885	76.392.436

As of 30.09.2016, the weighted average of interest rate respectively 8,64 % and 0,96 % and 0,00 % used to calculate unearned finance income for short-term trade receivables in terms of TL, USD and EUR. (31.12.2015: respectively %10,28- %0,00- %0,00)

As of 30 September 2016, amounting to TL 2.800.233 (31.12.2015: TL 2.721.528) of trade receivables are doubtful receivables. As at 30 September 2016 amounting to TL 336.372 (2015: TL 1.719.588) provision has been made. Doubtful receivables consist of uncollected amount of sales.

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016**

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

9. TRADE RECEIVABLES AND PAYABLES (continued)**a) Trade Receivables (continued):**

(*) The details of Group's doubtful trade receivables are as follows;

Doubful Trade Receivables	30.09.2016	31.12.2015
Opening	2.721.528	1.149.127
Period Expense	336.372	1.719.588
Less: Cancelled within the Period	(320.409)	(147.187)
Exchange Difference	62.742	-
Closing	2.800.233	2.721.528

Long-Term Trade Receivables

None (31.12.2015: None).

b) Trade Payables:

As at balance sheet date, the details of Group's trade payables are as follows:

<u>Short-Term Trade Receivables</u>	30.09.2016	31.12.2015
Suppliers	6.539.048	7.909.210
Notes Payables	7.958.760	30.210.459
Less: Unaccrued Finance Expense	(110.591)	(300.557)
Other Trade Payables	4.196.703	7.959.467
Total	18.583.920	45.778.579

As of 30.09.2016, the weighted average of interest rates are % 8,64, %0,96 and % 0,00 used to calculate unearned finance expense for short-term trade payables in terms of TL, USD and EUR. (31.12.2015: %10,28 %0,00- %-0,00)

<u>Suppliers and Notes Payables</u>	30.09.2016	31.12.2015
Maturity between 0 - 6 Months	9.752.989	31.802.063
Maturity between 6 - 9 Months	4.744.819	6.317.606
Total	14.497.808	38.119.669

Long-Term Trade Payables

None (31.12.2015: None).

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016**

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

10. OTHER RECEIVABLES AND PAYABLES

<u>Short-Term Other Receivables</u>	<u>30.09.2016</u>	<u>31.12.2015</u>
Deposits and Guarantees Given	634	43.591
Receivables from Tax Office	1.123.120	7.870.968
Blocked Receivables (*)	521.309	59.790
Other Miscellaneous Receivables	4.055	4.828
Total	<u>1.649.118</u>	<u>7.979.177</u>

(*) The amount consist of Eximbank loans and would be collected accordingly with closing of loans.

<u>Long-Term Other Receivables</u>	<u>30.09.2016</u>	<u>31.12.2015</u>
Deposits and Guarantees Given	30.846	29.696
Total	<u>30.846</u>	<u>29.696</u>

<u>Short-Term Other Payables</u>	<u>30.09.2016</u>	<u>31.12.2015</u>
Taxes and Funds Payable	563.143	1.565.547
Other Miscellaneous Payables	6.096	9.727
Total	<u>569.239</u>	<u>1.575.274</u>

11. INVENTORIES

	<u>30.09.2016</u>	<u>31.12.2015</u>
Raw materials	41.583.294	38.805.616
Work in process	18.590.442	11.673.251
Finished goods	12.657.511	8.761.146
Merchandises	2.572.589	430.022
Other inventories	7.103	24.437
Provision for impairment in value of inventories (-)	(31.332)	(37.600)
Total	<u>75.379.607</u>	<u>59.656.872</u>

As at balance sheet date, Group's inventories amounting to TL 31.332 which net realizable value under cost value (31.12.2015: TL 37.600). Inventory impairment amounting to TL 6.268 is cancelled within the current period (31.12.2015: TL 5.255).

<u>Provision for Impairment of Inventories</u>	<u>30.09.2016</u>	<u>31.12.2015</u>
Opening Balance	37.600	5.255
Additional Provision	-	37.600
Cancelled Provision (-)	(6.268)	(5.255)
Closing Balance	<u>31.332</u>	<u>37.600</u>

Group does not has any pledged inventory in return for loans as at September 30,2016. (31.12.2015: None).

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016**

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

12. PREPAID EXPENSES AND DEFERRED INCOME**Short-Term Prepaid Expenses**

	<u>30.09.2016</u>	<u>31.12.2015</u>
Advances Given for Inventories	7.180.773	5.702.660
Prepaid Expenses for Future Months	273.306	241.318
Total	<u>7.454.079</u>	<u>5.943.978</u>

Long-Term Prepaid Expenses

	<u>30.09.2016</u>	<u>31.12.2015</u>
Advances Given for Property	1.312.484	1.106.755
Prepaid Expenses for Future Years	71.094	18.032
Total	<u>1.383.578</u>	<u>1.124.787</u>

Short-Term Deferred Income

	<u>30.09.2016</u>	<u>31.12.2015</u>
Deferred Income for Future Months	5.154.657	7.020.798
Total	<u>5.154.657</u>	<u>7.020.798</u>

Long-Term Deferred Income

None (31.12.2015: None).

13. INVESTMENTS ACCORDING TO EQUITY METHOD

None (31.12.2015: None).

14. INVESTMENT PROPERTIES

Group valuated land and building located in Gaziemir / İzmir and land located in Güzelbahçe / İzmir and lands located in Ataşehir / İstanbul to CMB licenced independent expertise company TSKB Gayrimenkul Değerleme A.Ş. Group management believes that valuation company has the relevant professional experience and current information regarding investment property.

According to 31 December 2015 dated expertise report, total values of factory building and lands located in Çiğli / İzmir set as TL 5.006.000, the total value of lands located in Güzelbahçe / İzmir set as TL 587.000 and the total value of buildings located in Ataşehir / İstanbul set as TL 1.066.000. Property values calculated according to coefficient comparison, cost, income comparison and direct capitilazition methods.

Group has been earned amounting to TL 52.798 rent income from investment properties. (31.12.2015: TL 64.106). There is amounting to TL 15.600.000 mortgage over investment properties. (31.12.2015: TL 15.600.000). Also there is amounting to TL 1.800.000 insurance coverage over investment properties. (31.12.2015: TL 1.800.000).

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016

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

15. PROPERTY, PLANT AND EQUIPMENT

Group has been purchased amounting to TL 6.187.651 (31.12.2015: TL 4.334.066) property, plant and equipment and has been sold amounting to TL 160.224 property, plant and equipment within the interim period. (31.12.2015: TL 979.385)

Group valuated land and building located in Gaziemir / İzmir and land which factory construction ongoing on and located in Ankara to CMB licenced independent expertise company TSKB Gayrimenkul Değerleme A.Ş. Group management believes that valuation company has the relevant professional experience and current information regarding investment property.

According to 31 December 2015 dated expertise report, total values of factory bulding and lands located in Çiğli / İzmir set as TL 26.714.000, the total value of land located in Ankara Industrial Estate set as TL 594.000. Properties values calculated according to coefficient comparison, cost, income comparison and direct capitilazition methods. There is USD 5.000.000 and EUR 600.000 mortgage over Tangible Fixed Assets. (31.12.2015: USD 5.000.000, EUR 600.000).

16. INTANGIBLE FIXED ASSETS

Group has been purchased amounting to TL 5.360.671 (31.12.2015: TL 1.982.103) intangible fixed assets and amounting to TL 4.347.254 of this purchase arise from r&d investment. Group has not been sold any intangible fixed assets within the interim period. (31.12.2015: TL 136.015)

17. GOODWILL

None (31.12.2015: None).

18. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-Term Debt Provision

	30.09.2016	31.12.2015
Warranty Expense Provision	776.045	776.045
Lawsuit Expense Provision	32.172	56.793
Potential Expense	-	4.106
Total	808.217	836.944

Ongoing Lawsuits And Execution Proceedings

There is 1 lawsuits filed and ongoing as of 30 September 2016 , total amount of lawsuits are amounting to TL 32.172 and provision has been made for the entire amount (31.12.2015: 3 pcs - TL 56.793).

Collateral, Pledges, Mortgages, Bails

Collaterals, Pledges, Mortgages and Bails position table as of 30 September 2016 and 31 December 2015 are as below;

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016**

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

18. PROVISIONS, ONTINGENT ASSETS AND LIABILITIES (continued)**Collateral, Pledges, Mortgages, Bails (continued)****30.09.2016****CPMB's given by the Company (Collaterals, Pledges, Mortgages, Bail)**

	<u>TL</u> <u>Equivalent</u>	<u>USD</u>	<u>EUR</u>	<u>TL</u>
1. CPMB's given for company's own legal personality	52.990.671	5.001.882	4.653.076	23.606.910
2. CPMB's given on behalf of fully consolidated Companies	-	-	-	-
3. CPMB's given of behalf of third parties for ordinary course of business	-	-	-	-
4. Other CPMB's given				
- Total amount of CPMB's given on behalf of majotary shareholder	-	-	-	-
- Total amount of CPMB's given on behalf of other Group companies which are not in scope of 2 and 3	-	-	-	-
- Total amount of CPMB's given on behalf of third parties which are not in scoppe of 3	-	-	-	-
Total	<u>52.990.671</u>	<u>5.001.882</u>	<u>4.653.076</u>	<u>23.606.910</u>

31.12.2015**CPMB's given by the Company (Collaterals, Pledges, Mortgages, Bail)**

	<u>TL</u> <u>Equivalent</u>	<u>USD</u>	<u>EUR</u>	<u>TL</u>
A. CPMB's given for company's own legal personality	47.285.883	5.853.385	2.938.836	20.928.136
B. CPMB's given on behalf of fully consolidated Companies	-	-	-	-
C. CPMB's given of behalf of third parties for ordinary course of business				
D. CPMB's given within the scope of Corporate Governance Communique's 12/2 clause	-	-	-	-
E. Other CPMB's given	-	-	-	-
i Total amount of CPMB's given on behalf of majotary shareholder				
ii. Total amount of CPMB's given on behalf of other Group companies which are not in scope of B and C	-	-	-	-
iii. Total amount of CPMB's given on behalf of third parties which are not in scoppe of C	-	-	-	-
Total	<u>47.285.883</u>	<u>5.853.385</u>	<u>2.938.836</u>	<u>20.928.136</u>

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016**

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

18. PROVISIONS, ONTINGENT ASSETS AND LIABILITIES (continued)**Collateral, Pledges, Mortgages, Bails (continued)**

Group has not been given any “Other CPMB”. (31.12.2015: None).

Collaterals, Pledges, Mortgages and Bails position table as of 30 September 2016 and 31 December 2015 are as below;

<u>Collaterals, Pledges, Mortgages</u>	<u>30.09.2016</u>				<u>31.12.2015</u>			
	<u>Total TL Equivalents</u>	<u>USD</u>	<u>EUR</u>	<u>TL</u>	<u>Total TL Equivalents</u>	<u>USD</u>	<u>EUR</u>	<u>TL</u>
Collaterals	21.634.126	1.882	4.053.076	8.006.910	15.241.323	853.385	2.338.836	5.328.136
Pledges								
Mortgages	32.595.980	5.000.000	600.000	15.600.000	32.044.560	5.000.000	600.000	15.600.000
Total	54.230.106	5.001.882	4.653.076	23.606.910	47.285.883	5.853.385	2.938.836	20.928.136

19. EMPLOYEE BENEFITS**Provision for Short-Term Employee Benefits**

	<u>30.09.2016</u>	<u>31.12.2015</u>
Unused Vacation Provision	677.670	562.124
Total	677.670	562.124

Provision for Long-Term Employee Benefits

	<u>30.09.2016</u>	<u>31.12.2015</u>
Severance Pay Provision	3.380.880	2.609.471
Total	3.380.880	2.609.471

Scope of Employee Benefit Obligations

	<u>30.09.2016</u>	<u>31.12.2015</u>
Payables to Personel	248.525	278.821
Social Security Premiums Payable	493.142	476.473
Total	741.667	755.294

Under the Turkish Legislations, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service and reaches the retirement age (58 for women and 60 for men).

Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees. IAS 19 (“Employee Benefits”) stipulates the development of Company’s liabilities by using actuarial valuation methods under defined benefit plans.

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016

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

19. ÇALIŞANLARA SAĞLANAN FAYDALAR (devamı)

As at balance sheet date, provisions calculated according to assumption % 5 expected salary increasing rate and % 8,64 discount rate and about %3,81 real discount rate and retiring assumption as follows.

Main assumption is that maximum liability amount increases parallel to inflation rate for every service year. Therefore, discount rate used is the expected real rate adjusted for the future inflationary effects. Because of this, provisions in the accompanying financial statements as of September, 30 2016 are calculated by estimating present value of probable liabilities arising due to retirement of employees.

Group's retirement pay provision calculated over amounting to TL 4.297 (31.12.2015: TL 3.828) which is effective from 01 January 2016.

The movement of provision for severance pay are as follows:

	1 January– 30 September 2016	1 January - 31 December 2015
Provision as of 1 st January	2.609.471	2.246.329
Service Cost	784.188	594.336
Interest Cost	166.360	173.596
Severance Pay Cancelled	(391.265)	(315.582)
Defined Benefit Plans Remeasurement Gain / Loss (*)	212.126	(89.208)
Total Provisions as of Period End	3.380.880	2.609.471

(*) As of September 30, 2016, TL 212.126 (2015: TL 89.208) defined benefit plans remeasurement gain / losses booked in statement of comprehensive income.

The total expense has been charged to the general administrative, marketing and general production expenses.

20. OTHER ASSETS AND LIABILITIES

<u>Other Current Assets</u>	<u>30.09.2016</u>	<u>31.12.2015</u>
Deferred VAT	11.808.399	9.928.902
Work Advances	1.286.290	505.610
Personnel Advances	803.522	-
Total	<u>13.898.211</u>	<u>10.434.512</u>

Other Non-Current Assets

None. (31.12.2015: None)

Other Short-Term Liabilities

None. (31.12.2015: None)

Other Long-Term Liabilities

None. (31.12.2015: None)

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016**

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

21. CAPITAL, RESERVES AND OTHER EQUITY COMPONENTS**a) Capital**

Company's capital structure as of 30 September 2016 and 31 December 2015 as follows;

	30.09.2016		31.12.2015	
	<u>Share Rate</u>	<u>Share Amount</u>	<u>Share Rate</u>	<u>Share Amount</u>
Shareholders	(%)	TL	(%)	TL
İsmail Katmerci	46,11	11.528.333	46,11	11.528.333
Havva Katmerci	4,40	1.100.000	4,40	1.100.000
Mehmet Katmerci	4,40	1.100.000	4,40	1.100.000
Ayşenur Çobanoğlu	4,40	1.100.000	4,40	1.100.000
Furkan Katmerci	4,40	1.100.000	4,40	1.100.000
Public Part (*)	36,29	9.071.667	36,29	9.071.667
Capital	100,00	25.000.000	100,00	25.000.000
Unpaid Capital (-)		-		-
Paid-in Capital		25.000.000		25.000.000

(*) The public part of the capital are trading in Istanbul Stock Exchange, Inc. (BIST).

Company's paid capital is TL 25.000.000. (31.12.2015: TL 25.000.000) Capital consist of 25.000.000 registered shares. Each shares nominal value is 1 TL. 2.000.000 pcs. of shares nominative A Group and 23.000.000 pcs. of shares are nominative B Group shares. (31.12.2015 None.). There is not any restriction on Katmerciler shares (31.12.2015 None).

A group shares are privileged and 1.600.000 pcs. own by İsmail Katmerci, 100.000 pcs. own by Havva Katmerci, 100.000 pcs own by Mehmet Katmerci, 100.000 pcs own by Ayşenur Çobanoğlu and 100.000 pcs own by Furkan Katmerci. Privileged shares gives right to owner as mantioned below;

Company manages by the board of management consist of 5 people chosen by general assembly from the A group shareholders accordingly with Turkish Commercial Code. (Articles of Association article 10) issued shares are fully paid.

b) Re-acquired Shares

Company has been finished repurchase program by 23.05.2014 dated and 2014/17 numbered board decision which was started by 27.12.2013 dated and 2013/29 numbered board decision. Meanwhile, Company has been reacquired amounting to TL 16.000 nominal valued shares on 27.01.2014 date to amounting to TL 38.827 from 2,40 – 2,45 price range.

Company has been re-started repurchase program on 22.07.2016 according to 21.07.2016 dated Capital Market Board's decision to be applied until a Board's second decision. Meanwhile, Company has been reacquired amounting to TL 139.609 nominal valued shares on 22.07.2016, 25.07.2016, 24.08.2016 and 29.08.2016 dates to amounting to TL 889.823 from 5,64 – 6,83 price range and Company's own shares has been increased to amounting to TL 155.609 after this purchase.

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016**

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

21. CAPITAL, RESERVES AND OTHER EQUITY COMPONENTS (continued)**c) Revaluation and Remeasurement Gain / (Loss)**

	30.09.2016	31.12.2015
Tangible Assets Revaluation and Remeasurement Gain / (Loss)	9.976.331	9.976.331

Tangible Assets Revaluation and Remeasurement Gain / (Loss)

	30.09.2016	31.12.2015
Opening Balance	9.976.331	7.309.143
Increase from Tangible Assets Revaluation	-	2.810.450
Deferred Tax Liability from Revaluation	-	(143.262)
Closing Balance	9.976.331	9.976.331

d) Other Cumulative Comprehensive Income / Expense not to be Reclassified in Profit or Loss

	30.09.2016	31.12.2015
Defined Benefit Plans Remeasurement Gain / Loss	(408.264)	(238.563)
	(408.264)	(238.563)

e) Restricted Reserves Outgoing from Profit

	30.09.2016	31.12.2015
Legal Reserves	3.150.869	2.061.453
Total	3.150.869	2.061.453

f) Retained Profit / (Loss)

	30.09.2016	31.12.2015
Retained Profit / (Loss)	26.570.969	9.039.516
Total	26.570.969	9.039.516

g) Minority Shares

	30.09.2016	31.12.2015
Balance at 1 January	17.910	3.116.498
Additions / Disposals	12.834	(3.107.575)
Minority Profit / (Loss) Share	(6.417)	8.987
Total	24.327	17.910

h) Merge Effect of Common Controlled Entity and Business

	30.09.2016	31.12.2015
Merge Effect of Common Controlled Entity and Business (*)	(1.759.039)	(1.759.039)
Total	(1.759.039)	(1.759.039)

(*) Company has been purchased Isıpan and Profil's TL 89.000 and TL 466.677 nominal amount of shares by paying respectively TL 89.000 and TL 4.017.133 from shareholder İsmail Katmerci. This operation considered as "Merging of Common Controlled Entity and Business" and TL 1.759.039 difference between purchasing price and fair value discounted from purchasing price and presented as "Merge Effect of Common Controlled Entity and Business" in equity.

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016

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

21. CAPITAL, RESERVES AND OTHER EQUITY COMPONENTS (continued)

Profit Distribution

Publicly held companies , the CMB's profit distribution came into force from the date of February 1, 2014 II-1.19 Dividend accordance with the notification.

Partnerships, profits will be determined by the General Assembly in accordance with the dividend distribution policy and in accordance with the provisions of the relevant legislation by the General Assembly distributes . Comes within the scope of the notification a minimum distribution rate has not been determined . Companies based in contract or in the manner specified in the dividend distribution policy will pay dividends . In addition, dividends may be paid in installments of equal or different, consistent and interim financial statements of the profits in advance may distribute dividends in cash .

TCC based on separation of reserves required by the articles of association or dividend distribution policy for the shareholders determine dividend allottees other reserves to allocate to the next year to transfer profit and dividend shareholders , management board members subsidiaries to their employees and shareholders, persons other than the profit share to be distributed could not be given , as determined for the shareholders in cash dividends are paid on these shares may not be distributed to persons on the card .

Company's board of directors changed profit distribution policy with 29.04.2014 dated and 2014/13 numbered board decision which was related to 2010 and following years and decided with 25.02.2011 dated and 2011/12 numbered board decision within the scope of 6362 numbered Capital Market Board Law II.19.1 Profit Distribution announcement announced on 23 January 2014. The decision approved by shareholders on 2013 dated ordinary meeting of the general assembly.

22. INCOME TAXES

Current Tax Related to Assets

	<u>30.09.2016</u>	<u>31.12.2015</u>
Prepaid Taxes and Funds	179.577	2.193

Tax Provision

	<u>30.09.2016</u>	<u>31.12.2015</u>
Current Income Tax Provision (-)	(1.228.367)	(7.056.176)
Deferred Tax Provision Income / (Loss)	19.715	1.936.086
Total	<u>(1.208.652)</u>	<u>(5.120.090)</u>

Corporate Tax

The Group is subject to Turkish corporate taxes. The estimated tax liabilities of the Group's results for the period is recognized in the accompanying consolidated financial statements.

The corporate tax rate on taxable profit will be accrued expense in determining accounting profit and tax-exempt non-deductible expenses, gains and other non-taxable income deductions (prior year losses and investment incentives) on taxable income after the deduction of calculated.

Corporations calculate and pay quarterly temporary corporate tax of 20%. (2015: %20).

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016**

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

22. INCOME TAXES (continued)

The tax legislation provides for a temporary tax (prepaid tax) of 20% (20% in 2015) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final tax liability for the year.

Carried back to Turkey on tax there is no procedure. The annual accounting period until the close of the fourth month following the month of 25th. However, the tax authorities review the accounting records for five years and amount of tax payable may vary if errors are detected.

Income Tax Withholding

In addition to corporate taxes, their share of the profit from the distribution of dividends in the event of the company's income in the statements, including non-resident institutions and branches of foreign companies in Turkey on any dividends distributed, except for the calculation of income tax withholding is required. Income tax 24 April 2003 - 22 July 2006 was 10% in all companies. This rate uses as 15% from 22 July 2006 with 2006/10731 numbered decision of the Council of Ministers. Undistributed dividends incorporated in share capital are not subject to income tax withholding..

A reconciliation of income tax expense in the period are as follows:

Tax Liability for the Period

	<u>30.09.2016</u>	<u>31.12.2015</u>
Profit Before Tax	9.974.549	23.749.946
Taxable Profit	9.974.549	23.749.946
Corporate Tax Rate (%20)	20%	20%
Calculated Tax	1.994.910	4.749.989
Nonallowable Charges	180.406	(327.391)
Exemptions and Deductions	(1.172.201)	715.773
Deferred Tax Income, Net	(19.715)	1.936.086
Other	244.967	(18.281)
Total	<u>1.228.367</u>	<u>7.056.176</u>

Deferred Tax:

Deferred tax is accounted for using the liability method in respect of temporary differences arising from differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable (statutory) profit. Deferred tax is calculated using tax rates that have been enacted in the period in which assets acquired and/or liabilities carried out and included in the statement of income as income or expense.

Deferred tax rate is %20. (2015 :%20)

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016**

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

22. INCOME TAXES (continued)

	30 September 2016		31 December 2015	
	TEMPORARY DIFFERENCES	Deferred Tax Assets / (Liabilities)	TEMPORARY DIFFERENCES	Deferred Tax Assets / (Liabilities)
Deferred Tax Liabilities	-	(601.707)	-	(1.065.304)
Terminated Provisions (Doubtful Receivables+ Inventory Impairment)	30.890	(6.178)	87.420	(17.484)
Previous Period Inventory Rediscount Adjustment (Financial Expenses)	323.066	(64.613)	-	-
Receivable Rediscount (Reversal)	192.591	(38.518)	106.811	(21.362)
Real Estate Appreciation (Investment Purpose)	-	-	554.634	(27.732)
Real Estate Appreciation (Intended Purpose)	-	-	2.865.241	(143.262)
Tangible Asset Sales Adjustment (TPL Sales Loss Reversal+IFRS Profit on Sale)	22.982	(4.596)	953.446	(190.689)
TPL(Tax Procedure Law) Amortization Expense Reversal	1.744.165	(348.833)	2.098.579	(419.716)
Leave Provision Reversal	107.890	(21.578)	84.698	(16.940)
Severance Pay Provision Reversal	366.089	(73.218)	340.058	(68.012)
Payable Rediscount	74.841	(14.968)	237.994	(47.599)
Defined Benefit Plans Remeasurement Gain / Loss	146.020	(29.204)	-	-
Warranty Expense Provision Reversal	-	-	472.907	(94.581)
Reclassification of Incomes Capitalized According to TPL	-	-	89.636	(17.927)
Deferred Tax Assets		621.422		3.001.388
Receivable Impairment (Receivables Booked as Expense)	-	-	38.175	(7.635)
Tangible Assets Sales Adjustment (TPL Sales Profit Reversal+IFRS Sales Loss)	(32.914)	6.583	(3.499.290)	699.858
Reclassification of Expenses Capitalized According to TPL	-	-	(825.195)	165.039
Current Period IAS 16, IAS 38 Amortization Expense	(1.454.647)	290.929	(1.651.870)	330.374
TPL(Tax Procedure Law) Amortization Expense Adjustment	-	-	(75.865)	15.173
Impairment of Inventories	-	-	(37.600)	7.520
Severance Pay Provision	(925.372)	185.074	(767.930)	153.586
Receivable Rediscount	(70.763)	14.153	(192.590)	38.518
Leave Provision	(223.437)	44.687	(66.650)	13.330
Defined Benefit Plans Remeasurement Gain / Loss	(146.020)	29.204	-	-
Warranty Expense Provision	-	-	(911.615)	182.323
Provision for Doubtful Receivables	-	-	(6.086.600)	1.217.320
Payable Rediscount (Reversal)	(237.994)	47.599	(189.135)	37.827
Terminated Provisions Adjustment	(15.963)	3.193	(22.547)	4.509
Real Estate Appreciation	-	-	(7.690)	384
Deffered Tax Liability Deducted from Real Estate (Intended Purpose) Value Fund	-	-	(2.865.241)	143.262
Net, Deffered Tax Receivables Reflected to Profit / (Loss)	-	19.715	-	1.936.084

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016

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

23. EARNING PER SHARE

Earning Per Share	01.01. - 30.09.2016	01.01. - 31.12.2015
Net Profit / (Loss), Parent	8.772.314	18.620.869
Weighted Average Number of Shares	25.000.000	25.000.000
Earning / (Loss) Per Share from Operating Activities	0,351	0,745
Diluted Earning / (Loss) Per Share from Operating Activities	0,351	0,745

24. QUALITY AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS

a) Capital Risk Management

The aims of Group are to be beneficial for all shareholders and maintaining the best capital combination to reduce capital cost and keeping on entity when managing the capital. The Group's capital risk management, calculating as disclosed in note 8 including loans, debts, and, respectively, of cash and cash equivalents as disclosed in note 6, paid-in capital, defined benefit plans, re-measurement gains / losses, capital reserves, profit reserves and retained earnings / (loss) comprising shareholders' equity are taken into account and as disclosed in note 21.

Group capital cost and each risks regarding capital evaluate by executives. According to the evaluate company aim to equalise the capital structure by borrowing, redemption, dividend payment and issuance of shares.

The Group uses Liabilities / Equity rate while they follow capital sufficiency. This rate is found by net liabilities divided by total equity. Net liabilities is counted by cash and cash equivalents minus total liabilities which appears in balance sheet.

Equity to debts ratio as of September 30, 2016 and December 31, 2015 are as follows:

	30.09.2016	31.12.2015
Financial Liabilities	150.686.939	102.342.439
Less : Cash and Cash Equivalents	(17.110.389)	(16.981.050)
Net Financial Liabilities	133.576.550	85.361.389
Total Equity	70.398.857	62.679.650
Liabilities / Equity Ratio	1,90	1,36

The Group's current period capital risk management strategy doesn't differ compared to previous periods.

b) Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016

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

24. QUALITY AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (continued)**b) Financial Risk Factors (continued)****b.1) Credit Risk**

Financial losses due to Goup's receivables and financial assets which result from not implementing agreement clauses related to financial assets by a customer or other party constitutes credit risk. Company trying to decrease credit risk by making operations with confidential parties and attain enough collateral. Trade receivables contain lots of customers rathered on same sector and geographical area. Credit consideration making over Customer's trade receivables permanently.

30.09.2016	Receivables				Cash and Cash Equivalents
	Trade Receivables		Other Receivables		
Current Period	Related	3rd	Related	3rd	Banks Deposit
	Parties	Parties	Parties	Parties	
The maximum amount of exposure to credit risk at the end of the reporting period					
(A+B+C+D) (1)	486.616	76.661.506	-	1.679.964	16.991.982
- Maximum risk guaranteed with collateral etc. (*)	-	-	-	-	-
A. Financial assets that are either past due or impaired (2)	486.616	76.661.506		1.679.964	16.991.982
B. The amount of financial assets that are past due as at the end of reporting period but not impaired (4)	-		-	-	-
C. The amount of financial assets that are impaired (3)	-	-	-	-	-
- Overdue (gross book value)	-		-	-	-
- Impairment (-)	-	2.800.233	-	-	-
- Net value guaranteed with collateral etc.	-	(2.800.233)	-	-	-
- Not overdue (gross book value)	-	-	-	-	-
- Impairment (-)	-	-	-	-	-
- Net value guaranteed with collateral etc.	-	-	-	-	-
D. Off balance sheet credit risk amount	-	-	-	-	-

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016**

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

24. QUALITY AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (continued)**b) Financial Risk Factors (continued)****b.1) Credit Risk (continued)**

31.12.2015	Receivables				Cash and Cash Equivalents
	Trade Receivables		Other Receivables		
Previous Period	Related	3rd	Related	3rd	
	Parties	Parties	Parties	Parties	Banks Deposit
The maximum amount of exposure to credit risk at the end of the reporting period					
(A+B+C+D) (1)	455.869	75.743.976	-	8.008.873	16.949.574
- Maximum risk guaranteed with collateral etc. (*)	-	-	-	-	-
A. Financial assets that are either past due or impaired (2)	455.869	75.743.976	-	8.008.873	16.949.574
B. The amount of financial assets that are past due as at the end of reporting period but not impaired (4)	-	-	-	-	-
C. The amount of financial assets that are impaired (3)	-	-	-	-	-
- Overdue (gross book value)	-	-	-	-	-
- Impairment (-)	-	2.721.528	-	-	-
- Net value guaranteed with collateral etc.	-	(2.721.528)	-	-	-
- Not overdue (gross book value)	-	-	-	-	-
- Impairment (-)	-	-	-	-	-
- Net value guaranteed with collateral etc.	-	-	-	-	-
D. Off balance sheet credit risk amount	-	-	-	-	-

b.2) Market Risk Management

The market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Corporate Management periodically assign strategies and limits regarding asset management, asset management manage by asset managers within this scope.

b.2.1) Foreign Exchange Risk Management

Foreign currency transactions expose the Group to foreign currency risk. These risks are monitored and limited by the analysis of foreign currency position.

The group's foreign currency denominated monetary and non-monetary assets and liabilities as of the date of the balance sheet are as follows:

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016**

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

24. QUALITY AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (continued)**b.2.1) Foreign Exchange Risk Management (continued)**

CONSOLIDATED EXCHANGE POSITION TABLE								
	30.09.2016					31.12.2015		
	TL Equivalent	USD	EUR	GBP	Other	TL Karşılığı	USD	EUR
1. Trade Receivables	63.286.564	9.585.625	10.285.941			57.159.978	9.399.586	9.387.507
2a. Monetary Financial Assets (including cash and bank accounts)	5.444.190	688.740	1.005.963			8.386.019	387.890	2.284.174
2b. Non-Monetary Financial Assets	4.317.400	857.987	515.623	1.255	11.230	4.526.303	1.142.515	379.005
3. Other						-	-	-
4. Current Assets (1+2+3)	73.048.154	11.132.352	11.807.527	1.255	11.230	70.072.300	10.929.990	12.050.686
5. Trade Receivables	-	-	-	-	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-	-	-	-	-
6b. Non-Monetary Financial Assets	-	-	-	-	-	-	-	-
7. Other	-	-	-	-	-	-	-	-
8. Non-Current Assets (5+6+7)	-	-	-	-	-	-	-	-
9. Total Assets (4+8)	73.048.154	11.132.352	11.807.527	1.255	11.230	70.072.300	10.929.990	12.050.686
10. Trade Payables	2.287.357	500.399	234.531			14.351.631	764.216	3.817.219
11. Financial Liabilities	47.356.922	1.041.494	13.162.553			31.003.909	2.379.722	7.579.504
12a. Other Monetary Financial Liabilities								
12b. Other Non-Monetary Financial Liabilities	3.243.713	480.286	537.022			6.771.541	701.290	1.489.322
13. Short-Term Liabilities (10+11+12)	52.887.992	2.022.180	13.934.106	-	-	52.127.080	3.845.228	12.886.045
14. Trade Payables								
15. Financial Liabilities	20.447.295	660.640	5.495.145			22.279.968	877.492	6.208.639
16a. Other Monetary Financial Liabilities								
16b. Other Non-Monetary Financial Liabilities								
17. Long-Term Liabilities (14+15+16)	20.447.295	660.640	5.495.145	-	-	22.279.968	877.492	6.208.639
18. Total Liabilities (13+17)	73.335.286	2.682.819	19.429.252	-	-	74.407.048	4.722.720	19.094.684
19. Off Balance Sheet Derivative Instruments Net Assets / (Liabilities) (19a-19b)								
19a. Total Assets Hedged								
19b. Total Liabilities Hedged								
20. Net Foreign Currency Assets / (Liabilities) (9-18+19)	(287.132)	8.449.532	(7.621.724)	1.255	11.230	(4.334.748)	6.207.271	(7.043.998)
21. Monetary Items Net Foreign Currency Assets / (Liability) Position (IFRS 7.B23) (1+2a+5+6a-10-11-12a-14-15-16a)	(1.360.773)	8.071.832	(7.600.326)	-	-	(2.089.511)	5.766.046	(5.933.681)
22. Total Fair Value of Financial Instruments Used for Currency Hedge								

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016

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

24. QUALITY AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (continued)**b.2.1) Foreign Exchange Risk Management (continued)**

The Group is exposed to foreign exchange risk arising primarily with respect to transactions denominated in USD, EURO and GBP.

The following table details the Company's sensitivity to a 10% increase and decrease in the TL against USD, Euro and GBP. 10% is used in the reporting of currency risk to the key management and it represents the management's expectation on the potential exchange rate fluctuations. Sensitivity analysis can only made on the year-end outstanding foreign currency denominated monetary items and it shows the year-end effects of the 10% of exchange currency fluctuation on the related items.

Exchange Rate Analysis Table		
30.09.2016		
	Appreciated Exchange Rate	Depreciated Exchange Rate
Increase of 10% change in USD against TL:		
1- USD Net Assets / Liabilities	2.531.395	(2.531.395)
2- The Amount of USD Hedging (-)		
3- USD Net Effect (1+2)	2.531.395	(2.531.395)
Increase of 10% change in EUR against TL:		
4- EUR Net Assets / Liabilities	(2.561.509)	2.561.509
5- The Amount of EUR Hedging (-)		
6- EUR Net Effect (4+5)	(2.561.509)	2.561.509
Increase of 10% change in other exchange against TL:		
4- Other Exchange Net Assets / Liabilities	1.405	(1.405)
5- The Amount of Other Exchange Hedging (-)		
6- Other Exchange Net Effect (4+5)	1.405	(1.405)
TOPLAM (3+6+9+12)	(28.709)	28.709

Exchange Rate Analysis Table		
31.12.2015		
	Appreciated Exchange Rate	Depreciated Exchange Rate
Increase of 10% change in USD against TL:		
1- USD Net Assets / Liabilities	1.804.826	(1.804.826)
2- The Amount of USD Hedging (-)		
3- USD Net Effect (1+2)	1.804.826	(1.804.826)
Increase of 10% change in EUR against TL:		
4- EUR Net Assets / Liabilities	(2.238.301)	2.238.301
5- The Amount of EUR Hedging (-)		
6- EUR Net Effect (4+5)	(2.238.301)	2.238.301
Increase of 10% change in other exchange against TL:		
4- GBP Net Assets / Liabilities		
5- The Amount of GBP Hedging (-)		
6- GBP Net Effect (4+5)	-	-
TOTAL (3+6+9+12)	(433.475)	433.475

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 SEPTEMBER 2016**

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

25. FINANCIAL INSTRUMENTS (FAIR VALUE OF FINANCIAL RISK MANAGEMENT DISCLOSURES)

	The Fair Value of the Financial Assets	Loans and Receivables (Including Cash and Cash Equivalents)	Financial Assets Available for Sale	Financial Liabilities are Measured at Amortized Cost	Book Value	Fair Value	Notes
30.09.2016							
Financial Assets							
Cash and Cash Equivalents	-	17.110.389	-	-	17.110.389	-	6
Trade Receivables	-	77.148.122	-	-	77.148.122	-	9
Financial Investments	-	-	-	-	-	-	7
Financial Liabilities							
Financial Payables	-	-	-	150.686.939	150.686.939	-	8
Trade Payables	-	-	-	18.583.920	18.583.920	-	9
Other Financial Liabilities	-	-	-	-	-	-	
31.12.2015							
Financial Assets							
Cash and Cash Equivalents	-	16.981.050	-	-	16.981.050	-	6
Trade Receivables	-	76.199.845	-	-	76.199.845	-	9
Financial Investments	-	-	-	-	-	-	
Financial Liabilities							
Financial Payables	-	-	-	102.342.439	102.342.439	-	8
Trade Payables	-	-	-	45.778.579	45.778.579	-	9
Other Financial Liabilities	-	-	-	-	-	-	

25. FINANCIAL INSTRUMENTS (FAIR VALUE OF FINANCIAL RISK MANAGEMENT DISCLOSURES) (continued)

Financial Instrument fair values determine as follows;

- First Level: Financial Instruments valuated with market values of the similar instruments which traded on active market.
- Second Level: Financial Instruments valuated with data uses to find price which observable directly or indirectly on the market in addition to first level.
- Third Level: Financial Instruments valuated with data which not based on data uses to find fair value of the instruments on the market.

Company does not has any financial assets and liabilities shown as fair values.

26. POST BALANCE SHEET EVENTS

30.09.2016

- Second coupon payment amounting to TL 1.253.304 made on 08 November 2016 regarding TRSKTMR51711 ISIN coded Private Sector Bond amounting to TL 36.000.000 which was issued on 10 May 2016.

31.12.2015:

- As at 30 January 2015, the company issued bond which has TL 20.000.000 par value, 364 days maturity, TRFKTMR21612 ISIN code to the qualified investors and 4 coupon payment was done as of 01.02.2016 amounting TL 709.648.
- As at 31 December 2015, TL 3.828 severance pay ceiling has been increased to TL 4.093 to be effective from 1 January 2016

27. DISCLOSURE OF OTHER MATTERS

None. (31.12.2015: None).