

**Katmerciler Araç Üstü Ekipman  
Sanayi ve Ticaret A.Ş.  
And Its Subsidiaries**

Convenience Translation into English of  
Consolidated Financial Statements  
And Independent Auditors Report  
As at and For the Year Ended  
31 December 2017



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

**INDEPENDENT AUDITOR'S REPORT**

**To the General Assembly of Katmerciler Araç Üstü Ekipman San.ve Tic. Anonim Şirketi**

**A) Audit of the Consolidated Financial Statements**

**1) Opinion**

We have audited the accompanying consolidated financial statements of Katmerciler Araç Üstü Ekipman San.ve Tic. Anonim Şirketi (the "Company"), its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of balance sheet as at 31 December 2017 and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements and a summary of significant accounting policies and consolidated financial statement notes.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Turkish Accounting Standards ("TAS").

**2) Basis for Opinion**

Our audit was conducted in accordance with the Standards on Independent Auditing issued by the Capital Markets Board of Turkey ("CMB") and Standards on Independent Auditing (the "SIA") that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the "POA"). Our responsibilities under these standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We hereby declare that we are independent of the Group in accordance with the Ethical Rules for Independent Auditors (the "Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.





### 3) Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<i>Revenue Recognition</i>	
<b>The key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>The Company and its subsidiaries operate in all kinds of on-board equipment manufacturing, dyeing and welding work.</p> <p>The Group's products consist of onboard equipment manufacturing for the fire, trash, vacuum, grooving, ecological vehicles, transportation vehicle, military industry vehicles and construction industry vehicles.</p> <p>Revenue is recognized on an accrual basis over the fair value of the consideration received or receivable, if the products are delivered, the risks and rewards on the products are transferred to the buyer, it is probable that any future economic benefit associated with the item of revenue will flow to the entity, and the amount of revenue can be measured with reliability.</p> <p>Revenue recognition has been identified as a key audit matter since it is an important measurement criterion in terms of evaluation of performance management and the results of the company strategy and inherently has risk of fraud and error.</p> <p>For the year ended 31 December 2017, the Group's sales amounts to TL 177.225.811. The accounting policies and amounts related to revenue are disclosed in Note 2.2 and Note 21.</p>	<p>During our audit, the following audit procedures have been applied to on the audit of the revenue:</p> <ul style="list-style-type: none"><li>• The design and implementation of the controls that are set for the management of the relevant process are examined. In this context, the Company's sales and delivery procedures have been audited.</li><li>• Trading and delivery provisions of related sales contracts signed with customers have been examined and the appropriateness of timing of revenue recognition in the financial statements has been examined.</li><li>• We have focused on substantive procedures for the products for which may the invoice are issued but products have not been delivered. The customers which owned high-volume and high-risk transactions have been identified from the customer sales lists, sales in the specified period have been examined and the related samples have been selected from these population for audit procedures. The completeness and accuracy of these lists have been checked. In order to test the timing of revenue recognition and the related cut-off period, the contracts, the delivery conditions of the contracts, the delivery of products and the related accounting and other documents have been audited.</li></ul> <p>In addition, the adequacy of the disclosures in Note 21- Revenue has been assessed according to IAS.18</p> <p>As a result of the procedures we have applied regarding the revenue recognition, we are not aware of any significant misstatement.</p>







<i>Recoverability of trade receivables</i>	
<b>The key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>As of 31 December 2017, the Group's trade receivables amount to TL 127.982.114.</p> <p>The Group works with the customers based on order system. Also, the Company secures its receivables by using direct debiting system, collateral and various other guarantees. The Group determines the recoverable amount of its trade receivables-based risk analysis.</p> <p>Notes and accounting policies related to trade receivables of the Company are described in Note 2.2. and Note 7.</p> <p>The following reasons lead us to consider the recoverability of trade receivables as a key audit matter:</p> <ul style="list-style-type: none"><li>• Trade receivables comprises a significant portion of the consolidated financial statements,</li><li>• Management estimations are used to assess the recoverability of the trade receivables and the related collection performance.</li></ul>	<p>The main audit procedures applied to audit the recoverability of the receivables are as follows:</p> <ul style="list-style-type: none"><li>• We have organized meetings with the management and sales personnel and gathered the appropriate information and audit evidence on related internal controls and the operation based on following procedures:<ul style="list-style-type: none"><li>▪ Periodic management meetings and action plans about customer collection performances and evaluation of guarantees, mortgages received from customers</li><li>▪ Reconciliation of receivables balances with customers on a periodic basis,</li><li>▪ Regular controls of customer collaterals,</li><li>▪ Customer order tracking, production, delivery and sample approval, and control mechanisms related to sales recognized in the accounting process has been tested.</li></ul></li><li>• The portion of the trade receivables that is not secured by the collateral have been discussed with the customer's risk appraisal.</li><li>• The letters and information have been gathered from legal counsels to check the potential dispute or litigations related to trade receivables.</li><li>• The audit procedure on the analysis on trade receivables aging has been performed and the invoices and maturity terms have been audited based on substantive audit procedures.</li><li>• Reconciliation letters have been sent to the sampled receivables selected through the population and the confirmations received have been reconciled with the financial statements.</li><li>• The guarantees received from the customers have been tested and the guarantees of the customers selected by sampling have been checked with the related contracts.</li><li>• As of the date of balance sheet, collections after the balance sheet date have been tested for trade receivables which have maturity dates after 1 January 2018.</li><li>• As a result of these audit procedures applied on the recoverability of trade receivables, we are not aware of any significant misstatement.</li></ul>







<b>Auditor Transition and First Time Audit</b>	
<b>The key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>First time audit by its nature comprises specified audit procedures than recurring audits. As a result, additional planning audit procedures and assessments has been applied to form an appropriate audit strategy and audit plan. These steps mainly comprise the following:</p> <ul style="list-style-type: none"><li>• Determining the audit risks by gathering the appropriate information about the Group's business, control environment and information systems to form an audit plan accordingly.</li><li>• Obtaining sufficient/appropriate audit evidence about the opening balances, checking the appropriateness and accuracy of accounting policies, communicating with the previous auditors and performing a file review on prior period audit files.</li><li>• Communication with previous auditors.</li></ul>	<p>Before year ending 31 December 2017, we prepared a transition plan starting from July 2017. This transition plan comprises the following:</p> <ul style="list-style-type: none"><li>• Performing file reviews on prior period auditors' files for all consolidated companies and negotiating key audit and accounting issues and understanding of uncorrected audit differences which may be identified during prior period audit.</li><li>• Meeting with the managers of subsidiaries as audit team.</li><li>• Performing periodic meetings with management to understand risks, internal control environment and key findings.</li></ul>

#### 4) Other Matters

The consolidated financial statements of the Group as of 31 December 2016 and for the year then ended were audited by another audit firm whose audit report dated 13 March 2017 expressed an unqualified opinion.

#### 5) Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

The Group management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with TAS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.





## 6) Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Responsibilities of independent auditors in an independent audit are as follows:

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance expressed as a result of an independent audit conducted in accordance with Standards on Independent Auditing issued by the CMB and SIA is a high level of assurance but does not guarantee that a material misstatement will always be detected.

Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements

As part of an independent audit conducted in accordance with Standards on Independent Auditing issued by the CMB and SIA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Assess the internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.







We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence. We also communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**B) Other Responsibilities Arising from Regulatory Requirements**

1) Pursuant to the fourth paragraph of Article 398 of Turkish Commercial Code ("TCC") no. 6102; Auditors' Report on System and Committee of Early Identification of Risks is presented to the Board of Directors of the Company on 8 February 2018.

2) Pursuant to the fourth paragraph of Article 402 of the TCC; no significant matter has come to our attention that causes us to believe that for the period 1 January - 31 December 2017, the Company's bookkeeping activities and financial statements are not in compliance with TCC and provisions of the Company's articles of association in relation to financial reporting.

3) Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

İstanbul, 28 February 2018

Aksis Uluslararası Bağımsız Denetim A.Ş.

Tayyip Yaşar, YMM  
Partner



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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

Assets	Note	Audited 31 December 2017	Audited 31 December 2016
<b>Total current assets</b>		<b>431.478.329</b>	<b>224.326.660</b>
<b>Current assets</b>			
Cash and cash equivalents	4	35.952.961	6.161.712
Financial investments	5	186.977	1.076.191
Trade receivables		127.982.114	99.400.162
- Trade receivables from related parties	7	1.048.585	687.628
- Trade receivables from third parties	7	126.933.529	98.712.534
Other receivables		3.930.184	2.677.752
- Other receivables from third parties	8	3.930.184	2.677.752
Inventories	9	212.311.823	92.239.330
Prepaid expenses	10	31.043.229	10.444.912
Current tax assets		746	2.193
Other current assets	19	20.070.295	12.324.408
<b>Total non-current assets</b>		<b>93.117.400</b>	<b>69.037.189</b>
<b>Non-current assets</b>			
Other receivables	8	24.598	20.818
- Other receivables from third parties		24.598	20.818
Equity accounted investees	11	174.636	-
Investment property	12	7.952.000	7.200.000
Property, plant and equipment	13	52.364.397	42.631.846
Intangible assets	14	15.550.415	9.717.796
Prepaid expenses	10	7.712.998	1.850.083
Deferred tax assets	27	9.338.356	7.616.646
<b>Total assets</b>		<b>524.595.729</b>	<b>293.363.849</b>





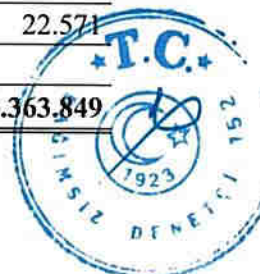
## KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

Liabilities	Note	Audited	Audited
		31 December 2017	31 December 2016
<b>Total short-term liabilities</b>		<b>262.640.633</b>	<b>158.989.222</b>
<b>Short term liabilities</b>			
Short-term borrowings	6	154.690.310	107.794.967
Short-term portion of long term borrowings		7.493.303	5.067.140
Trade payables		45.541.960	35.753.887
- Trade payables to third parties	7	45.541.960	35.753.887
Payables related to the employee benefits	18	2.520.809	1.331.732
Other payables		4.061.747	2.470.473
- Other payables to third Parties	8	4.061.747	2.470.473
Deferred income	10	46.635.878	5.477.549
Short term provision		1.696.626	1.093.474
- Short term provisions for employee benefits	18	1.106.509	711.803
- Other short-term provision	16	590.117	381.671
<b>Total long-term liabilities</b>		<b>169.508.297</b>	<b>62.199.402</b>
<b>Long term liabilities</b>			
Long term borrowings	6	157.117.476	51.914.354
Other payables		472.851	1.168.998
- Other payables to third Parties		472.851	1.168.998
Long term provisions		4.500.334	3.498.780
- Long term provisions related for employee benefits	18	4.500.334	3.498.780
Deferred tax liability		7.417.636	5.617.270
<b>Total liabilities</b>		<b>432.148.930</b>	<b>221.188.624</b>
<b>Total equity</b>		<b>92.446.799</b>	<b>72.175.225</b>
<b>Equity</b>			
<b>Equity attributable to the owners of the Company</b>		<b>92.412.819</b>	<b>72.152.654</b>
Paid-in share capital	20	25.000.000	25.000.000
Treasury shares (-)		--	(1.161.298)
Share premium		1.839.173	-
Other comprehensive income or expenses not to be reclassified in profit or loss		16.273.871	10.754.345
- Revaluation reserve		16.766.665	11.259.003
- Actuarial gain/(loss)		(492.794)	(504.658)
Restricted reserves	20	3.765.426	3.150.869
Reserve from common control transactions		(1.759.039)	(1.759.039)
Retained earnings	20	35.553.220	26.570.969
Net Profit for the Year		11.740.168	9.596.808
<b>Non-controlling interest</b>	20	<b>33.980</b>	<b>22.571</b>
<b>Total equity and liabilities</b>		<b>524.595.729</b>	<b>293.363.849</b>



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

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2017**

Monetary Unit: Turkish Lira ("TL")

	Note	Audited 1 January-31 December 2017	Audited 1 January -31 December 2016
Revenue	21	177.225.811	144.583.597
Cost of sales (-)	21	(86.416.376)	(88.147.132)
<b>Gross profit</b>		<b>90.809.435</b>	<b>56.436.465</b>
General administrative expenses (-)	22	(19.190.338)	(13.136.245)
Marketing expenses (-)	22	(18.790.115)	(15.009.793)
Research and development expenses (-)	22	(872.722)	(1.500.054)
Other income from operations	24	26.509.508	18.796.904
Other expenses from operations (-)	24	(16.193.807)	(8.378.637)
<b>Operating profit</b>		<b>62.271.961</b>	<b>37.208.640</b>
Income from investing activities	25	5.388.239	1.260.558
Expenses from investing activities (-)	25	(2.800.263)	(557.089)
<b>Operating profit before financial income and expenses</b>		<b>64.859.937</b>	<b>37.912.109</b>
Financial income	26	12.662.283	2.567.257
Financial expenses (-)	26	(63.051.945)	(28.920.603)
<b>Profit before tax</b>		<b>14.470.275</b>	<b>11.558.763</b>
<b>Tax income / (expense)</b>		<b>(2.718.701)</b>	<b>(1.957.291)</b>
- Current tax expense	27	(2.946.345)	(2.196.848)
- Deferred tax income / (expense)	27	227.644	239.557
<b>Profit for the year</b>		<b>11.751.574</b>	<b>9.601.472</b>
<b>Distribution of profit or loss</b>			
Non-controlling interests	20	(11.406)	(4.664)
Equity holders of the Company	20	11.740.168	9.596.808
<b>Earnings per share from continuing operations</b>		<b>0,47</b>	<b>0,38</b>
<b>Diluted earnings per Share from continuing operations</b>		<b>0,47</b>	<b>0,38</b>
<b>Other comprehensive income</b>			
<b>Items not to be reclassified in profit or loss</b>			
Increase / (decrease) from revaluation of property, plant and equipment		5.810.997	1.348.583
Defined benefit plans remeasurements gains / (losses)		14.831	(221.745)
- Deferred tax (income / (expanse)		(306.300)	(21.563)
<b>Total other comprehensive income (after tax)</b>		<b>5.519.528</b>	<b>1.105.275</b>
<b>Total comprehensive income</b>		<b>17.271.102</b>	<b>10.706.747</b>
<b>Distribution of total comprehensive income</b>			
Non-controlling interest		11.406	3.821
Equity holders of the Company		17.259.696	10.702.926





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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

Monetary Unit: Turkish Lira ("TL")

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)													
	Notes	Paid in Capital	Treasury Shares	Share Premiums	Other Comprehensive Profit / (Loss) Not to be Reclassified on Profit or Loss			Retained Earnings				Non Controlling Interests	Total
					Identified Benefit Plans Reclassification Income /(Loss)	Increase from Revaluation Property, Plant and Equipment	Reserve from Common Control Transactions	Restricted Reserve	Retained Profit	Net Period Profit	Equity Holders of the Company		
PREVIOUS PERIOD													
January 2016 Opening	20	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
Transfers									18,620,869	(18,620,869)	-	-	-
Total Comprehensive Income	20		(1,122,471)		(266,095)	1,282,672		1,089,416	(1,089,416)	9,596,808	10,613,385	4,661	10,618,046
Increase / Decrease from Re-acquired Shares											(1,122,471)		(1,122,471)
Balance at 31 December 2016 Closing	20	25,000,000	(1,161,298)	-	(504,658)	11,259,003	(1,759,039)	3,150,869	26,570,969	9,596,808	72,152,654	22,571	72,175,225
CURRENT PERIOD													
January 2017 Opening	20	25,000,000	(1,161,298)		(504,658)	11,259,003	(1,759,039)	3,150,869	26,570,969	9,596,808	72,152,654	22,571	72,175,225
Transfers													
Total Comprehensive Income	20				11,864	5,507,662		614,557	8,982,251	(9,596,808)	-	-	-
Increase / Decrease from Re-acquired Shares			1,161,298	1,839,173						11,740,168	17,259,694	11,409	17,271,103
Balance at 31 December 2017 Closing	20	25,000,000	-	1,839,173	(492,794)	16,766,665	(1,759,039)	3,765,426	35,553,220	11,740,168	92,412,819	33,980	92,446,799



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

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

Monetary Unit: Turkish Lira ("TL")

	Notes	Audited 1 January- 31 December 2017	Audited 1 January- 31 December 2016
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>(72.799.048)</b>	<b>(63.942.933)</b>
Net Profit for The Period		11.751.574	9.601.472
Adjustments to Reconcile Net Profit		2.084.193	(6.011.713)
Depreciation and Amortization	13-14	3.453.534	2.033.390
Impairments / Reversals	9	--	(6.269)
Changes in Provisions	18	1.969.907	1.347.392
Interest Income and Expense		(1.131.951)	(776.594)
Unrealized Exchange Loss / (Gain)		(4.925.999)	(10.588.199)
Fair Value (Loss) / Gain		--	16.089
Gain/Loss from Sales of Property, Plant and Equipment		--	5.187
Other Profit / (Loss) Reconciliations		2.718.702	1.957.291
<b>Changes in Working Capital</b>		<b>(124.526.580)</b>	<b>(65.211.324)</b>
Increases / (Decreases) in Inventories	9	(120.072.493)	(32.582.458)
Increases / (Decreases) in Trade Receivables	7	(28.581.952)	(23.200.317)
Increases / (Decreases) in Other Receivables		(1.252.432)	5.301.425
Increases (Decreases) in Trade Payables	7	9.788.073	(8.855.694)
Increases (Decreases) in Other Payables		895.127	895.199
Other Increase / (Decreases) in Working Capital		14.697.097	(6.769.479)
<b>Cash Flow from Operating Activities</b>		<b>(110.690.813)</b>	<b>(61.621.565)</b>
Other Cash Flows / Outflows		37.893.212	(2.321.368)
Tax Payments / Returns		(1.447)	--
<b>B. CASHFLOW PROVIDED BY INVESTING ACTIVITIES</b>		<b>(10.056.548)</b>	<b>(16.150.116)</b>
Acquisition of Financial Investments		(200.000)	--
Proceeds from Sale of Property, Plant and Equipment	13-14	1.306.086	56.235
Acquisition of Property, Plant and Equipment	13-14	(14.872.872)	(16.282.393)
Interest Received		3.710.238	--
Tax Payments / Returns		--	76.042
<b>C. CASH FLOW PROVIDED BY FINANCING ACTIVITIES</b>		<b>112.646.845</b>	<b>69.273.711</b>
Sales of Company Shares		3.734.369	--
Proceeds from Borrowings		366.676.444	205.717.913
Payments of Borrowings		(230.987.551)	(126.078.436)
Payment of Finance Lease Liabilities		(1.709.670)	(1.143.706)
Interest Paid		(25.066.747)	(10.298.251)
Other Cash Inflows / Outflows	4	(2.045.521)	1.076.191
<b>NET INCREASE / (DECREASE) IN CASH EQUIVALENTS BEFORE FOREIGN CURRENCY CONVERSION ADJUSTMENTS (A+B+C)</b>		<b>27.745.728</b>	<b>(10.819.338)</b>
<b>D. FOREIGN CURRENCY CONVERSION ADJUSTMENTS EFFECTS ON CASH AND CASH EQUIVALENTS</b>		<b>--</b>	<b>--</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS(A+B+C+D)</b>		<b>27.745.728</b>	<b>(10.819.338)</b>
<b>E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>4</b>	<b>6.161.712</b>	<b>16.981.050</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (A+B+C+D+E)</b>	<b>4</b>	<b>33.907.440</b>	<b>6.161.712</b>





**SUMMARY OF NOTES**

1. ORGANIZATION AND ACTIVITIES .....	7
2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS.....	7
3. SEGMENT REPORTING .....	26
4. CASH AND CASH EQUIVALENTS.....	26
5. FINANCIAL INVESTMENTS .....	26
6. FINANCIAL BORROWINGS .....	27
7. TRADE RECEIVABLES AND PAYABLES.....	29
8. OTHER RECEIVABLES AND PAYABLES.....	31
9. INVENTORIES .....	31
10. PREPAID EXPENSES AND DEFERRED INCOME .....	32
11. EQUITY ACCOUNTED INVESTEEES.....	32
12. INVESTMENT PROPERTY.....	32
13. PROPERTY, PLANT AND EQUIPMENT.....	34
14. INTANGIBLE ASSETS.....	36
15. LEASES.....	38
16. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES .....	38
17. GOVERNMENT GRANTS.....	40
18. EMPLOYEE BENEFITS.....	40
19. OTHER ASSETS AND LIABILITIES .....	41
20. CAPITAL, RESERVES AND OTHER EQUITY COMPONENTS.....	42
21. SALES AND COST OF SALES .....	44
22. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES AND RESEARCH AND DEVELOPMENT EXPENSES .....	45
23. EXPENSES BY NATURE.....	46
24. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES .....	47
25. INCOME AND EXPENSES FROM INVESTING OPERATIONS.....	47
26. FINANCIAL INCOME AND EXPENSES.....	48
27. INCOME TAXES.....	48
28. EARNING PER SHARE.....	51
29. RELATED PARTY DISCLOSURES .....	51
30. KEY MANAGEMENT PERSONNEL .....	52
31. QUALITY AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS .....	53
32. FINANCIAL INSTRUMENTS (FAIR VALUE OF FINANCIAL RISK MANAGEMENT DISCLOSURES) .....	60
33. SUBSEQUENT EVENTS .....	62



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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

### 1. ORGANIZATION AND ACTIVITIES

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

The Group's head office address: Atatürk Organized Industrial Zone 10032 Sokak No: 10 Çiğli / İZMİR. The Group has a branch which is located in Kızıllırmak Mah. 1445 Sok. No: 2b/82 The Pragon İş Merkez 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 (together referred as 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, as at 31 December 2017, 36,29 % (31 December 2016: 36,29 %) of shares are trading Istanbul Stock Exchange Inc. (Borsa İstanbul).

As of 31 December 2017, the total number of people employed by the Group is 476. (31 December 2016: 353). The ultimate parent of Group is managed by İsmail Katmerci. (Note 20).

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

<u>Company Title</u>	<u>Nature of Business</u>	<u>Establishment Place</u>
Katmerciler Profil San. ve Tic. A.Ş.	Painting Works	Turkey
Isipan 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 have any subsidiary whose shares are traded on the stock exchange market





## 2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.1. Basis of Presentation

The consolidated financial statements of the Group have been prepared in accordance with Turkish Accounting Standards/Turkish Financial Reporting Standards ("TAS/IFRS") promulgated by the Public Oversight Accounting and Auditing Standards Authority ("POA") that are set out in the 5th article of the communiqué numbered II-14.1 "Communiqué on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") announced by the Capital Markets Board ("CMB") on 13 June 2013 and published in Official Gazette numbered 28676.

In addition, financial statements and footnotes are presented in accordance with the formats announced by the CMB on 7 June 2013.

Consolidated financial statements are prepared on the basis of historical cost except for in financial assets, investment properties and land and buildings recognized, property, plant and equipment measured at their fair value. When the historical cost is determined, the fair value of the amount usually paid for the assets is taken as basis. The measurement principle of fair value is disclosed in the related accounting policies.

#### Approval of financial statements:

The financial statements of the Group for the year ended 31 December 2017 were approved by the management on 28 February 2018. The General Assembly and certain regulatory bodies have the right to amend the financial statements after their publication.

### 2.1.1. Functional and Presentation Currency

The consolidated financial statements are presented in ("TL"), which is Company's functional currency. The financial statements of the Group's subsidiaries are reported in terms of their local currencies which is ("TL") also as well.

### 2.1.2. Basis of Consolidation

The consolidated financial statements include the accounts of the parent company, its subsidiaries on the basis set out in sections below. Control is obtained by controlling over the activities of an entity's financial and operating policies in order to benefit from those activities.

#### *Subsidiaries*

Subsidiaries are those entities on which the Group has the power to control. The Group controls the companies when it is incurred changeable returns due to relations of any companies or has a right to own these returns and has a power to affect these returns. The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control is transferred to the Group to the date on which control is transferred out from the Group. The Group has made adjustments on the financial statements of the subsidiaries to be inconsistent with the basis of applied accounting standards if it is necessary.

For each business combination, the Group elects to measure any non-controlling interests in the acquire either:

- At fair value; or
- At their proportionate share of the acquires identifiable net assets, which are generally at fair value

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognized in profit or loss.

Losses in non-controlling interest of subsidiaries are transferred to non-controlling interest even if the result is negative.





## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

**2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (continued)****2.1. Basis of Presentation (continued)****2.1.2 Basis of Consolidation (continued)***Subsidiaries (continued)*

On the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently that retained interest is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

The table below demonstrates the rates of the effective ownership held in terms of percentages (%) as of 31 December 2017 and 2016 for all subsidiaries directly or indirectly controlled by the Group and included in the scope of consolidation:

Subsidiaries	Main Operation	Functional Currency	Establishment & Operation Country	Effective Ownership Rate (%)	
				31 December 2017	31 December 2016
Katmerciler Profil San. ve Tic. A.Ş.(Katmerciler Profil)	Painting Works	Turkish Lira	Turkey	100,00	100,00
Isipan Otomotiv ve Üst Ekipman Metal ve Makine San. ve Tic. A.Ş. (Ekipman Metal)	Weld Workshop	Turkish Lira	Turkey	95,67	95,67
Gimkat Araç Üstü Ekipman San. ve Tic. A.Ş.	Onboard Equipment Manufacturing	Turkish Lira	Turkey	100,00	100,00

*Equity Accounted Investees*

Associates are those entities, in which the Group has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Joint ventures are accounted for using the equity accounting method.

The Group's associates are accounted under equity accounting method in the accompanying consolidated financial statements. Under the equity accounting method, the investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of net assets in the associate.

The table below demonstrates the rates of the effective ownership and the voting power held in terms of percentages (%) as of 31 December 2017 and 2016 for the associates:

	Main Operation	Functional Currency	Establishment & Operation Country	Effective Ownership Rate (%)	
				31 December 2017	31 December 2016
Lika	Defense Industry	Turkish Lira	Turkey	20,00	--





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

### 2.1. Basis of Presentation (continued)

#### 2.1.2 Basis of Consolidation (continued)

##### *Consolidation adjustments*

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. Carrying value of shares owned by the Group and dividends arising from these shares has been eliminated in equity and profit or loss statements.

##### *Under Common Control Interests*

Transactions arising from transferring or acquisition shares of entities under the common control are recognized as at the beginning of the period in which the transaction accrued. For that purpose, comparative periods are restated. Acquired assets and liabilities are recognized at book value which is the same as recorded book value in under common control entity's financial statements. Shareholder's equity items of entities under common control are recognized in equity of the Group except for capital and current profit or loss is recognized in equity.

#### 2.1.3. Changes in Accounting Policies

The following new and revised standards have been applied in the current year and have affected the amounts reported and disclosures in these financial statements. Details of other new and revised standards and interpretations applied in these financial statements that have had no material impact on the financial statements are also set out below. There is no significant change in accounting policies and estimations of the Company in the current period.

#### 2.1.4. New and Revised International Financial Reporting Standards

##### *Standards issued but not yet effective and not early adopted*

New standards, interpretations and amendments to existing standards are not effective at reporting date but earlier application is permitted; however, the Company consolidated has not early adopted are as follows. The Company 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 15 Revenue from Contracts with Customers**

The new standard replaces existing IFRS 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 performance obligations for goods and services in a contract and recognition of revenue over time. TFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Company has performed an initial assessment on these transactions and does not expect that there will be a significant impact on its consolidated financial statements resulting from the application of TFRS 15.

##### **TFRS 9 Financial Instruments**

TFRS 9, published in July 2014, replaces the existing guidance in TAS 39 "Financial Instruments: Recognition and Measurement". It also carries forward the guidance on recognition, classification, measurement and derecognition of financial instruments from TAS 39 to TFRS 9. The last version of TFRS 9 includes a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements and also includes guidance issued in previous versions of TFRS 9. TFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Company continues to evaluate the above transactions in the case of applying TFRS 9, the effect on the financial statements is not yet determined.





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

### 2.1. Basis of Presentation (continued)

#### 2.1.4. New and Revised International Financial Reporting Standards (continued)

##### *Standards issued but not yet effective and not early adopted (continued)*

#### **TFRIC 22 – Foreign Currency Transactions and Advance Consideration**

IASB issued POA 22 Foreign Currency Transactions and Advance Consideration to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. TFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Company is assessing the potential impact on its consolidated financial statements resulting from the application of TFRIC 22.

#### **TFRS 2 – Classification and Measurement of Share-based Payment Transactions**

TFRS 2 Share-Based Payment has been amended by TASB 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 share-based payments settled net of tax withholdings; and iii) accounting for modification of a share-based 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 Company is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to TFRS 2.

#### **TAS 40 – Transfers of Investment Property**

Amendments to TAS 40 - Transfers of Investment Property issued by POA have been made to clarify uncertainty about that provide evidence of transfer of /from investment property to other asset groups. A change in management's intentions for the use of property does not provide evidence of a change in intended use. Therefore, when an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized (eliminated from the statement of consolidated financial position) and does not reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Company is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to TAS 40.





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

### 2.1. Basis of Presentation (continued)

#### 2.1.4. New and Revised International Financial Reporting Standards (continued)

##### *Standards issued but not yet effective and not early adopted (continued)*

##### **Annual Improvements to TFRSs**

The POA issued Annual Improvements to TFRSs - 2014–2016 Cycle. The amendments are effective as of 1 January 2018. Earlier application is permitted. The Company does not expect that application of these improvements to TFRSs will have significant impact on its consolidated financial statements.

##### **Annual Improvements to TFRSs 2014-2016 Cycle**

##### *TFRS 1 "First Time Adoption of International Financial Reporting Standards"*

TFRS 1 is amended to the outdated short-term exemptions for first-time adopters are removed within the context of 'Annual Improvements to TFRSs 2012-2014 Cycle' related to disclosures for financial instruments, employee benefits and consolidation of investment entities.

##### *TAS 28 "Investments in Associates and Joint Ventures"*

The amendment enables when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with TFRS 9.

##### ***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 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 Company will make the necessary changes to its financial statements after the new standards and interpretations are issued and become effective under TFRS.

##### **IFRS 16 Leases**

On 13 January 2016, IASB issued 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 changes to 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. IFRS 16 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 Company is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.





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

### 2.1. Basis of Presentation (continued)

#### 2.1.4. New and Revised International Financial Reporting Standards (continued)

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

#### IFRIC 23 –Uncertainty over Income Tax Treatments

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. IFRIC 23 is effective from 1 January 2019, with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 23.

#### *Annual Improvements to IFRSs 2015-2017 Cycle*

##### Improvements to IFRSs

IASB issued Annual Improvements to IFRSs - 2015–2017 Cycle. The amendments are effective as of 1 January 2019. Earlier application is permitted. The Company does not expect that application of these improvements to IFRSs will have significant impact on its consolidated financial statements.

##### *IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*

IFRS 3 and IFRS 11 are amended to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.

##### *IAS 12 Income Taxes*

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

##### *IAS 23 Borrowing Costs*

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

##### IAS 28- Long-term interests in Associates and Joint Ventures

On 12 October 2017, IASB has issued amendments to IAS 28 to clarify that entities also apply IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. An entity applies IFRS 9 to such long-term interests before it applies related paragraphs of IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Company is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 28.





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

### 2.1. Basis of Presentation (continued)

#### 2.1.5. Restatement and Errors in the Accounting Policies and Estimates

Material changes in accounting policies or material errors are corrected, retrospectively by restating the prior period financial statements. The effect of changes in accounting estimates affecting current and future periods is recognized in the current and future periods. There is no significant change in accounting policies and estimations of the Company in the current period.

### 2.2. Summary of significant accounting policies

#### 2.2.1. Revenue and Income

##### *Sale of Goods*

Revenues from sale of products are recognized when all the following conditions are satisfied:

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

##### *Rendering of services*

The Group recognizes revenue from rendering of services in proportion to the stage of completion of the transaction at the reporting date.

##### *Rent Income*

Rental income from properties books with straight line method during lease term.

#### 2.2.2. Inventories

Inventories are the items as held for sale in the ordinary course of business, which is produced to be sold or used in the production process or the provision of services in the form of raw materials assets shown. Advances given are classified in the prepaid expenses until the related stock is recognized.

Inventories are measured at the lower of cost and net realizable value.

Inventories are valued at the lower of cost and net realizable value. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale. When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in statement of income/(loss) in the period the write-down or loss occurred. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the original write-down (Note 9).

The cost of inventories is based on the first-in, first-out principle. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.





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

### 2.2. Summary of significant accounting policies (continued)

#### 2.2.3. Property, Plant and Equipment

(i) *Recognition and measurement*

Items of property, plant and equipment (except for land and buildings which are measured at fair value) are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labor;
- any other costs directly attributable to bringing the assets to a working condition for their intended use
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- Capitalized borrowing costs.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss.

Property, plant and equipment of the subsidiaries and joint ventures that operate in Turkey and acquired before 1 January 2005 are stated at restated cost until 31 December 2004 less accumulated depreciation and permanent impairment losses. Property, plant and equipment of such entities acquired after 1 January 2005 are stated at cost, less accumulated depreciation and permanent impairment losses.

(ii) *Subsequent costs*

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

(iii) *Depreciation*

Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use. Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is generally recognized in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The depreciation rates used by the Group are disclosed on Note 12.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iv) *Revaluation Model*

The Group recognizes the land and buildings at their fair values as appraised by independent third party appraisers.

Any increase arising on the revaluation of such land and buildings is credited to other comprehensive income, and presented in revaluation surplus in equity, except to the extent that it reverses a impairment loss for the same asset previously recognized as an expense, in which case the increase is credited to profit or loss to the extent of the decrease previously charged (Note 13). A decrease in the carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation surplus relating to a previous revaluation of that asset.





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

### 2.2. Summary of significant accounting policies (continued)

#### 2.2.4. Intangible Assets

##### *Recognition and measurement*

Intangible assets comprise licenses, development costs, software and other intangible assets.

Intangible assets which were acquired before 1 January 2005 are restated for the effects of inflation in TL units current at 31 December 2004, less accumulated amortization and accumulated impairment losses. Intangible assets acquired after 1 January 2005 are stated at cost less accumulated amortization and permanent impairment losses.

Development activities involve a plan or design for the production of new or substantively improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets.

##### *Amortization*

The amortization rates applied by the Group are disclosed on Note 13.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

#### 2.2.5. Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change therein recognized in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labor, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalized borrowing costs.

Investment property under construction is measured at cost when the fair value is not reliably determined.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss. When an investment property that was previously classified as property and equipment is sold, any related amount included in the revaluation surplus is transferred to retained earnings.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.





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

### 2.2. Summary of significant accounting policies (continued)

#### 2.2.6. Impairment of Assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets with indefinite lives are tested annually for impairment. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit ("CGU") exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For the non-financial other assets, impairment loss is reversed when there is a change in the estimates used in the calculation of recoverable amount. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Assets that have an indefinite useful life are not subject to amortization of goodwill. These assets are tested for impairment annually. The carrying value of assets subject to amortization may not be recoverable in the event of a situation or events are reviewed for impairment. If the carrying amount exceeds the recoverable amount of the asset is recognized for the impairment. The recoverable amount is fair value less costs to sell or value in use is the one obtained. For purposes of assessing impairment, assets are grouped at the lowest level of identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting.

#### 2.2.7. Leases

##### *(i) Determining whether an Arrangement contains a Lease*

At the beginning of a lease agreement, the Group determine whether that agreement is a lease agreement or that agreement is an agreement which contains a lease.

Following the beginning of the agreement or reconsidering of the agreement, the Group classify related payments required by the agreement as rent payments and other payments according to their fair value. If the Group decide that related payments are not possible to be classified in a financial lease agreement, reliably an asset or a liability are recognized as much as fair value of related lease. Within the related lease payments, liability is decreased and financial cost added to liability is recognized by using alternative debt ratio of the Group.





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

### 2.2. Summary of significant accounting policies (continued)

#### 2.2.7. Leases (continued)

##### *(ii) Financial leases*

All leases which transfer to the Group all the risks and rewards incidental to the ownership of an asset are classified as financial leases. Financial leases are capitalized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments and is reflected as a liability by the same amount in the consolidated financial statements of the Group. The finance lease obligations are reduced through principle payments and the finance charge portion is allocated to consolidated statement of comprehensive income of each period during the lease term. Capitalized leased assets are depreciated over the estimated useful life of the related asset.

If there is not reasonable certainty that the ownership will be obtained by the end of the lease term, and the lease term is shorter than the estimated useful life of the leased asset, the asset is depreciated over the lease term, otherwise the asset is depreciated over its estimated useful life.

##### *(iii) Operating leases*

Operating leases are the leases that the risks and rewards incidental to the ownership of the asset belongs to the lesser. Lease payments under an operating lease are recognized as an expense in profit or loss on a straight-line basis over the lease term.

##### *(iv) Leased assets*

All leases which transfer to the Group all the risks and rewards incidental to the ownership of an asset are called as financial leases. Firstly, tangible assets acquired via financial leases are measured at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Following the first record, related leased asset is recognized according to effective accounting policies.

Leased assets under other leases are classified as operating leases and are not recognized in the financial position of the Group.

##### *(v) Lease payments*

Payments under operating leases are recognized in profit or loss via straight-line method during the lease term. Lease promotions are recognized as a part of lease expenses during the lease term.

Minimum lease payments under financial leases are distributed by decreasing finance cost and the rest liability. Finance costs are distributed to each period on condition that determining a fixed interest rate for the period on the rest balance of related liability.

#### 2.2.8. Borrowing Cost

The Group capitalizes the borrowing costs directly attributable to the acquisition, or construction of a qualifying asset as part of the cost of that asset. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method. Borrowing costs that are directly attributable to construction of investment property is included in the cost base of related assets.



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

### 2.2. Summary of significant accounting policies (continued)

#### 2.2.9. Related Parties

Parties are considered related to the Company if:

(a) directly, or indirectly through one or more intermediaries, the party:

- (i) controls, is controlled by, or is under common control with the Company (this includes Parent, subsidiaries and fellow subsidiaries);
- (ii) has an interest in the Company that gives it significant influence over the Company; or
- (iii) has joint control over the Company;

(b) the party is an associate of the Company

(c) the party is a joint venture in which the Company is a venturer;

(d) the party is member of the key management personnel of the Company as its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled or significantly influenced by, or for which significant voting power in such entity resides with directly or indirectly, any individual referred to in (d) or (e)

(g) the party is a post-employment benefit plan for the benefit of employees of the Company, or of any entity that is a related party of the Company.

A related party transaction is a transfer of resources, services or obligation between related parties, regardless of whether a price is charged.

A number of transactions are entered into with related parties in the normal course of business.

Related party balances and transactions are disclosed on Note 29.

#### 2.2.10. Financial Instruments

##### (i) *Non-derivative financial assets*

The Group initially recognizes loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.





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

### 2.2. Summary of significant accounting policies (continued)

#### 2.2.10. Financial Instruments (continued)

##### (i) *Non-derivative financial assets (continued)*

###### *Financial assets at fair value through profit or loss*

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognized in profit or loss.

The fair value of the financial instruments is determined by using the quoted prices in an active market at the balance sheet date without any deduction of transaction costs. If the market for a financial instrument is not active at the balance sheet date, the fair value is estimated by using the market inputs and the appropriate valuation techniques. However, judgment is needed to interpret the available market information. Therefore, the estimates may not reflect the value that would have been realized in a current market transaction.

For all the other financial instruments that are not quoted in an active market, fair value is determined by using a valuation technique. Valuation techniques include net present value technique, benchmarking and other valuation techniques.

###### *Held-to-maturity financial assets*

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

###### *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and cash equivalents, trade and other receivables.

###### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

###### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

Available-for-sale financial assets comprise equity securities and debt securities.

Equity securities classified as available for sale financial assets and whose fair value cannot be reliably measured, due to lack of active and observable market, are carried at cost, which has been restated by considering the inflation effect until 31 December 2004 less impairment losses if any, since they are acquired before 1 January 2005.





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

### 2.2. Summary of significant accounting policies (continued)

#### 2.2.10. Financial Instruments (continued)

##### (ii) *Non-derivative financial liabilities*

The Group initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, debt securities issued (including certain preference shares, bank overdrafts, and trade and other payables.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the statement of cash flows.

##### (iii) *Share capital*

###### *Ordinary Shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

###### *Repurchase and reissue of share capital (treasury shares)*

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as "treasury shares owned by the Company" if owned by the Company and classified as "treasury shares owned by the subsidiaries" if owned by subsidiaries and are presented in equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

##### (iv) *Impairment of financial assets*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss has occurred after the initial recognition of the asset and the loss had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency of a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables not to be impaired are then collectively reassessed for any impairment that has been incurred, but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping similar risk characteristics.





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

### 2.2. Summary of significant accounting policies (continued)

#### 2.2.10. Financial Instruments (continued)

##### (iv) *Impairment of financial assets (continued)*

In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and accounted as doubtful receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization and the current fair value, less any impairment loss previously recognized in profit or loss.

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. Impairment losses are recognized in profit or loss. An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

#### 2.2.11. Trade payables

Trade payables comprises the future payments with regards to the purchase of goods and services from suppliers within the ordinary course of business. Trade payables are recognized initially at fair value. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method (Note 7).

#### 2.2.12. Effects of Changes in Foreign Exchange

##### (i) *Foreign currency transactions*

Transactions in foreign currencies are translated to the functional currency of the Company at the exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated to the functional currency at the exchange rate ruling at the date. Foreign currency differences arising on translation of foreign currency transactions are recognized in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are recognized in profit or loss in the period in which they arise except for:

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.





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

### 2.2. Summary of significant accounting policies (continued)

#### 2.2.13. Earnings Per Share

The Group presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, less own shared acquired (Note 28).

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings and inflation adjustments on equity items. Such kind of bonus shares are taken into consideration in the computation of earnings per share as issued share certificates. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the period has been adjusted in respect of bonus shares issues without a corresponding change in resources, by giving them retroactive effect for the period in which they were issued and each earlier period.

#### 2.2.14. Events after the Reporting Period

Events after the reporting period include all events up to the date when the financial statements are authorized for issue, even if those events occur after the public announcement of profit or of other selected information.

The Group adjusts the amounts recognized in its consolidated financial statements to reflect adjusting events after the reporting period. Non-adjusting events are disclosed in the notes to the consolidated financial statements, if material.

#### 2.2.15. Provisions, Contingent Liabilities and Contingent Assets

##### *Provision*

A provision is recognized in the accompanying consolidated financial statements if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. Unless the possibility of any outflow in settlement is remote, contingent liabilities are disclosed in the notes to the financial statements. Where an economic inflow of economic benefits is probable, contingent assets are disclosed in the notes to the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs.

##### *Warranties*

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. The Group recognizes the estimated liability for the difference between possible warranty claims of customers and possible warranty claims from producers based on historical service statistics.

##### *Onerous contracts*

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with that contract.





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

### 2.2. Summary of significant accounting policies (continued)

#### 2.2.16. Financial Information Segment Reporting

Within the year ending 31 December 2017, the Group management reassessed its reporting of its operations. As a result of this reassessment, the management stopped the segment reporting. Since the proportion of the revenues from the departments other than "On-Board Equipment Production ", which is the main section reported earlier, is lower than 1% of the total revenues, and the " Weld Workshop " and "Painting Work" sections are inseparable part of main section and cannot generate revenue by themselves.

As a result of that, there is no segment reporting in the financial statements ending 31 December 2017(Not 3).

#### 2.2.17. Government Grants and Incentives

All subsidies and incentives, including non-monetary incentives stated at fair market values, are included in the consolidated financial statements when there is reasonable certainty that the Group will qualify for and receive such subsidies and incentives. Government subsidies and incentives utilized by the Group are presented in Note 17.

#### 2.2.18. Taxation and Deferred Income Taxes

Income tax expense comprises current and deferred tax. Current tax charge is recognized in profit or loss except for the effects of the items reflected under equity. Current tax except taxes recognized during business combination and taxes recognized under other comprehensive income are recognized in profit or loss (Note 27).

Current tax liability is calculated on taxable profit for the current year based on tax laws and tax rates that have been effective for the reporting date including adjustment related to previous years' tax liabilities.

On 28 November 2017 in accordance with the provisional Article 10 added to article 9 of Law No. 7061 on Law No. 5520, the corporate tax rate will be applied as 22% for the years 2018, 2019 and 2020. The Group has calculated deferred tax assets and liabilities at the rate of 22% for which the temporary differences are being expected to be realized in the years 2018, 2019 and 2020.

Deferred tax is recognized over temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the differences arising from the initial recognition of goodwill, differences of an asset or liability in a transaction that is not a business combination, at the time of the transaction, which affects neither the accounting profit nor taxable profit and for differences associated with the investments in subsidiaries, associates and interest in joint ventures, to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable, entity or on different tax entities but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.





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

### 2.2. Summary of significant accounting policies (continued)

#### 2.2.19. Employee Benefits

In accordance with the existing labor law in Turkey, the entities operating in Turkey are required to make lump-sum payments to employees who have completed one year of service and whose employment is terminated without cause, or due to retirement, military service or death. With respect to Group's employees in Turkey, retirement pay liability is calculated by using lower of employee's monthly salary and retirement pay ceiling. It is detailed in Note 18 as at 31 December 2017 and 2016. The Group recognizes retirement pay liability as the present value of the estimated total reserve of the future probable obligation of the Group. The key actuarial assumptions used in the calculation of the retirement pay liability are detailed in Note 18.

#### 2.2.20. Cash Flows

Cash flows for the period are classified as cash flows from operations, investing activities and financing activities. Cash flows from operations are the cash flows generated from the principal activities of the Group. The Group presents the cash flows from operating activities by using the indirect method such as adjusting the accruals for cash inflows and outflows from gross profit/loss, other non-cash transactions, prior and future transactions or deferrals.

Cash flows from investing activities represent the cash flows used in/provided from investing activities (purchase of property, plant and equipment and intangible assets and financial investments).

Cash flows from financing activities represent the funds used in and repayment of the funds during the period.

Cash and cash equivalents are short term investments with high liquidity that comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value.

#### 2.2.21. Dividends

Dividend receivables are recorded as income in the period of declaration. Dividend payments are recognized in consolidated financial statements when a distribution of profit decided by General Assembly.

#### 2.2.22. Critical accounting estimates and assumptions

The preparation of the consolidated financial statements in accordance with TFRS requires management to make judgments, estimates and assumptions that affect both the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The accounting judgements, estimates and assumptions used in preparing the consolidated financial statements, are consistent with the accounting judgements, estimates and assumptions used in preparing the consolidated financial statements as at 31 December 2013.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Not 7 – Trade Receivables
- Not 16 – Provisions, Contingent Liabilities and Contingent Assets
- Not 18 – Employee Benefits
- Not 31 – Quality and Level of Risks from Financial Instruments





**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

Monetary Unit: Turkish Lira ("TL")

**3. SEGMENT REPORTING**

Within the year ending 31 December 2017, the Group management reassessed reporting of its operations. As a result of this reassessment, the management stopped the segment reporting. Since the proportion of the revenues from the departments other than "On-Board Equipment Production ", which is the main section reported earlier, is lower than 1% of the total revenues, and the " Weld Workshop " and "Painting Work" sections are inseparable parts of the main section and cannot generate revenue by themselves.

As a result of that, there is no segment reporting in the financial statements ending 31 December 2017.

**4. CASH AND CASH EQUIVALENTS**

	<u>31 December 2017</u>	<u>31 December 2016</u>
Cash	13.324	18.988
Banks	35.939.637	6.142.724
-Demand Deposits	20.958.974	6.142.724
TL	8.717.480	4.475.750
USD	7.294.637	1.478.273
EURO	4.946.857	188.701
-Time Deposit	14.980.663	--
TL	14.950.557	--
Accrued Interest Income	30.106	--
<b>Total</b>	<b>35.952.961</b>	<b>6.161.712</b>

As of 31 December 2017, there are cash blockages amounting to TL 2.045.521 in the accounts of the Company.

Time Deposit

	<u>31 December 2017</u>	<u>31 December 2016</u>
Between 30-90 Days	14.980.663	--

Explanations on the nature and level of risks in cash and cash equivalents are made on note 32.

**5. FINANCIAL INVESTMENTS**

	<u>31 December 2017</u>		<u>31 December 2016</u>	
	<u>Nominal Value</u>	<u>Carrying Value</u>	<u>Nominal Value</u>	<u>Carrying Value</u>
Financial assets at fair value through profit or loss				
Azimut GBK-Eurobond Debt Instrument Funds	--	--	275	197
Azimut GMA-Multiple Asset Flexible Debt Instrument Funds	--	--	700.000	742.564
Azimut GTF-Primary Debt Instrument Funds	--	--	100.000	121.248
Azimut GBL-Money Market Debt Instrument Funds	--	--	200.000	212.182
Şekerbank Bonds	100.000	100.324	--	--
Halkbank Bonds	87.648	86.653	--	--
	<b>187.648</b>	<b>186.977</b>	<b>1.000.275</b>	<b>1.076.191</b>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

## 6. FINANCIAL BORROWINGS

	<u>31 December 2017</u>	<u>31 December 2016</u>
a) Bank Borrowing	255.316.198	107.197.223
b) Short-term Portions of Long-term Borrowings	7.493.303	5.067.140
c) Issued Bonds	51.859.479	49.415.666
d) Financial Leases	4.632.109	3.096.432
<b>Total</b>	<b>319.301.089</b>	<b>164.776.461</b>

## a) Bank Loans

		<u>31 December 2017</u>		
<u>Currency</u>	<u>Average Interest Rate (%)</u>	<u>Short-Term</u>	<u>Short-Term Portion of Long-Term Borrowings</u>	<u>Long-Term</u>
TL	13,25 - 17,40	52.502.203	4.996.458	90.541.239
EUR	2,70 - 5,75	48.970.410	2.496.845	63.302.346
<b>Total</b>		<b>101.472.613</b>	<b>7.493.303</b>	<b>153.843.585</b>

		<u>31 December 2016</u>		
<u>Currency</u>	<u>Average Interest Rate (%)</u>	<u>Short-Term</u>	<u>Short-Term Portion of Long-Term Borrowings</u>	<u>Long-Term</u>
TL	4,25-14	11.701.863	2.872.765	33.480.653
USD	3,50-4,75	596.993	-	1.008.007
EUR	4,25-4,50	45.066.968	2.194.375	15.342.740
<b>Total</b>		<b>57.365.824</b>	<b>5.067.140</b>	<b>49.831.399</b>

	<u>31 December 2017</u>	<u>31 December 2016</u>
Less than a year	108.965.916	57.365.824
Between 1-2 year	86.492.619	13.365.453
Between 2-3 year	61.350.966	24.889.294
Between 3-4 year	6.000.000	11.576.652
<b>Total</b>	<b>262.809.501</b>	<b>107.197.223</b>

The fair value of short- and long-term debts is equal to its book value because the effect of discounting is insignificant. As of the reporting date, the bank loans have been secured over the values of the buildings of EUR 600.000, USD 5.000.000 and TL 45.600.000.





NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

**6. FINANCIAL BORROWINGS (continued)****b) Short-term Portions of Long Term Loans**

<u>Currency</u>	<u>Average Interest Rate (%)</u>	<u>31 December 2017</u>	<u>31 December 2016</u>
TL	13,25 - 17,40	4.996.458	1.952.071
USD	3,25-4,50	--	1.714.285
EUR	2,98 - 5,75	2.496.845	1.400.784
<b>Total</b>		<b>7.493.303</b>	<b>5.067.140</b>

**c) Bond Issued****31 December 2017**

<u>Currency</u>	<u>Nominal Interest Rate (%)</u>	<u>Term</u>	<u>Nominal Value</u>	<u>Carrying Value</u>
TL	4,5551(*)	08.03.2018	50.000.000	51.859.479
<b>Total</b>			<b>50.000.000</b>	<b>51.859.479</b>

(\*) The amount of accrued interest is TL 1.859.479 as of 31 December 2017.

(\*) The coupon interest for each coupon payment period will be calculated by adding the 5.25% for TL 50.000.000 per annum to the weighted average over the last five business days of the indicative government domestic borrowing date of the BIC Bond and Bills final purchase and sale market. Bonds are paid in quarterly and principal will be paid in date of maturity.

**31 December 2016**

<u>Currency</u>	<u>Nominal Interest Rate (%)</u>	<u>Term</u>	<u>Nominal Value</u>	<u>Book Value</u>
TL	3,60 (*)	10.05.2017	36.000.000	37.083.903
TL	3,4744 (**)	10.08.2017	12.000.000	12.331.763
<b>Total</b>			<b>48.000.000</b>	<b>49.415.666</b>

(\*) The amount of accrued interest is 1.415.666 TL as at 31 December 2016.

(\*\*) The coupon interest for each coupon payment period will be calculated by adding the 4% per annum to the weighted average over the last five business days of the indicative government domestic borrowing date of the BIC Bond and Bills final purchase and sale market. Bonds are paid in quarterly and principal will be paid in date of maturity.

**d) Financial Lease Obligations**

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

- Net carrying value of financial lease assets as at balance sheet dates:

<u>Net Value</u>	<u>31 December 2017</u>	<u>31 December 2016</u>
Machinery, Equipment and Instalments (net)	4.632.109	3.096.436



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

**6. FINANCIAL BORROWINGS (continued)****d) Financial Lease Obligations (continued)**

- Net carrying value of financial lease assets as at balance sheet date:

**31 December 2017**

	Less than 1 year	Between 1-5 years	Total
<b>Amount of minimum lease payments</b>			
TL denominated financial lease	254.299	512.923	767.222
EUR denominated financial lease	1.157.248	2.600.419	3.757.667
USD denominated financial lease	215.897	503.948	719.845
<b>Total</b>	<b>1.627.444</b>	<b>3.617.290</b>	<b>5.244.734</b>
<b>Present value of payments</b>			
TL denominated financial lease	174.135	420.983	595.117
EUR denominated financial lease	1.001.976	2.400.923	3.402.899
USD denominated financial lease	182.107	451.985	634.093
<b>Total</b>	<b>1.358.218</b>	<b>3.273.891</b>	<b>4.632.109</b>

**31 December 2016**

	Less than 1 year	Between 1-5 years	Total
<b>Amount of minimum lease payments</b>			
TL denominated financial lease	147.068	468.417	615.485
EUR denominated financial lease	911.193	1.632.204	2.543.397
USD denominated financial lease	99.472	208.842	308.314
<b>Total</b>	<b>1.157.733</b>	<b>2.309.463</b>	<b>3.467.196</b>
<b>Present value of payments</b>			
TL denominated financial lease	109.167	351.197	460.364
EUR denominated financial lease	816.137	1.535.290	2.351.427
USD denominated financial lease	86.173	196.468	282.641
<b>Total</b>	<b>1.011.477</b>	<b>2.082.955</b>	<b>3.096.432</b>

Financial leaseings are related to purchasing of machinery and fixtures whose rental periods are 2 years. Company has options to buy these machineries and fixtures. The Company's obligations under finance leases, the lessor of the leased asset is secured by property right on.

The interest rates are fixed for the entire rental period. Contract average effective interest rate is about 5% per annum.

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

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

<b>Short-Term Trade Receivables</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
Current Accounts	107.480.398	87.407.337
Postdated Checks	19.740.900	11.472.420
Less: Unrealized Finance Income	(287.769)	(167.223)
Doubtful Trade Receivables (*)	3.519.568	2.911.976
Less: Provisions for Doubtful Trade Receivables	(3.519.568)	(2.911.976)
<b>Sub Total</b>	<b>126.933.529</b>	<b>98.712.534</b>
- Related Parties (Not 29)	1.048.585	687.628
<b>Total</b>	<b>127.982.114</b>	<b>99.400.162</b>





NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

**7. TRADE RECEIVABLES AND PAYABLES (continued)**

Current Accounts, Notes Receivables and Checks maturity details are as follows:

<b><u>Customers, Notes Receivables and Postdated Checks (*)</u></b>	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Less than 3 months	67.392.536	62.568.102
Maturity between 3-6 months	34.632.637	25.343.963
Maturity between 6-9 months	26.244.710	11.655.320
<b>Total</b>	<b>128.269.883</b>	<b>99.567.385</b>

As of 31 December 2017, the weighted average interest rates to calculate unrealized finance income for the short-term trade receivables in terms of TL, USD and EUR are respectively %13,54, %1,77 and %-0,35 and the maturities of the receivables are 234 days on average (31 December 2016: respectively % 9,12, %1,12 and %-0,28; 222)

As of 31 December 2017, the amount of TL 3.519.568 (31 December 2016: 2.911.976 TL) trade receivables are doubtful receivables. The provision of doubtful receivables increased TL 339.838 within the period. Doubtful receivables consist of uncollectible amounts related to customer receivables.

The details of doubtful trade receivables are as follows:

<b><u>Doubtful Trade Receivables</u></b>	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Opening	2.911.976	2.721.528
Period Expense	339.838	320.409
Currency Translation Differences	275.901	--
Less: Cancelled within the Period	(8.147)	(129.961)
<b>Closing</b>	<b>3.519.568</b>	<b>2.911.976</b>

**b) Trade Payables:**

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

<b><u>Short-term Trade Payables</u></b>	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Suppliers (*)	9.550.795	14.321.073
Notes Payables (*)	23.704.375	14.948.536
Less: Unrealized Finance Expense	(278.682)	(156.620)
Other Trade Payables	12.565.472	6.640.898
<b>Total</b>	<b>45.541.960</b>	<b>35.753.887</b>

(\*) Details of suppliers and notes payables are as follows:

<b><u>* Suppliers and Notes Payables</u></b>	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Maturity between 0-6 months	26.155.417	24.410.998
Maturity between 6-9 months	7.099.753	4.858.611
<b>Total</b>	<b>33.255.170</b>	<b>29.269.609</b>

As of 31 December 2017, the weighted average interest rates to calculate unrealized finance expense for the short-term trade payable in terms of TL, USD and EUR are respectively %13,54, %1,77 and %-0,35 and the maturities of the receivables are 172 days on average (31 December 2016: %9,12, %1,12 and %-0,28; 169)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017  
Monetary Unit: Turkish Lira ("TL")

**8. OTHER RECEIVABLES AND PAYABLES**

<b><u>Short-Term Other Receivables</u></b>	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Deposits and Guarantees	164.456	100.657
Receivables from Tax Office	3.398.331	2.168.458
Receivables from Social Security Institution	19.767	18.568
Eximbank Blocked Receivables (*)	343.385	378.876
Other Receivables	4.245	11.193
<b>Total</b>	<b>3.930.184</b>	<b>2.677.752</b>

(\*) The amount consists of Eximbank loans and would be collected after closing of the loans.

<b><u>Long-Term Other Receivables</u></b>	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Deposits and Guarantees	24.598	20.818
<b>Total</b>	<b>24.598</b>	<b>20.818</b>

<b><u>Short-Term Other Payables</u></b>	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Tax Payables	3.290.028	1.860.315
Other Payables	49.950	1.774
Restructured Tax According to 6736 Numbered Tax Law	721.769	608.384
<b>Total</b>	<b>4.061.747</b>	<b>2.470.473</b>

<b><u>Long-Term Other Payables</u></b>	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Restructured Tax According to 6736 Numbered Tax Law	472.851	1.168.998
<b>Total</b>	<b>472.851</b>	<b>1.168.998</b>

**9. INVENTORIES**

	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Raw Materials and Supplies	80.738.718	37.082.950
Work-in Process	116.477.223	36.711.597
Finished Goods	13.213.418	15.892.952
Commercial Goods	1.477.163	2.574.129
Other Inventories	436.633	9.034
Impairment on Inventories (-)	(31.332)	(31.332)
<b>Total</b>	<b>212.311.823</b>	<b>92.239.330</b>

As of 31 December 2017, the Group has TL 25.000.000 insurance on its inventories. (31 December 2016: 25.000.000TL)

<b><u>Provision for Impairment of Inventories</u></b>	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Opening Balance	(31.332)	(37.600)
Cancelled Provision (-)	-	6.268
<b>Closing Balance</b>	<b>(31.332)</b>	<b>(31.332)</b>

Group does not have any pledged inventory in return for loans as at 31 December 2017. (31 December 2016: None).





NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

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

	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Advances Given for Inventories	30.552.095	10.050.782
Prepaid Expenses for Future Months	484.814	394.130
Income Accruals	6.320	--
<b>Total</b>	<b>31.043.229</b>	<b>10.444.912</b>

**Long-Term Prepaid Expenses**

	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Advances Given for Property, Plant and Equipment	7.505.275	1.735.478
Prepaid Expenses for Future Years	207.723	114.605
<b>Total</b>	<b>7.712.998</b>	<b>1.850.083</b>

**Short-Term Deferred Income**

	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Deferred Income for Future Months	46.635.878	5.477.549
<b>Total</b>	<b>46.635.878</b>	<b>5.477.549</b>

**11. EQUITY ACCOUNTED INVESTEEES**

	<b><u>31 December 2017</u></b>		<b><u>31 December 2016</u></b>	
	(%)	TL	(%)	TL
LİKA	20	174.636	-	-
<b>Total</b>	<b>20</b>	<b>174.636</b>	<b>-</b>	<b>-</b>

**Summary of Financial Information of Equity Accounted Investees**

	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Total Assets	922.484	-
Total Liabilities	922.484	-
Period Profit / (Loss)	(126.819)	-

**12. INVESTMENT PROPERTY**

	<b><u>1 January 2017</u></b>		<b><u>31 December 2017</u></b>
<b><u>Fair Value</u></b>	<b><u>Opening</u></b>	<b><u>Change in Fair Value</u></b>	<b><u>Closing</u></b>
Land	5.670.750	713.000	6.383.750
Building	1.529.250	39.000	1.568.250
<b>Investment Property</b>	<b>7.200.000</b>	<b>752.000</b>	<b>7.952.000</b>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

Monetary Unit: Turkish Lira ("TL")

**12. INVESTMENT PROPERTY (continued)**

<b>Fair Value</b>	<b>1 January 2016</b>	<b>Change in Fair Value</b>	<b>31 December 2016</b>
	<b>Opening</b>		<b>Closing</b>
Land	5.205.500	465.250	5.670.750
Building	1.453.500	75.750	1.529.250
Investment Property	<b>6.659.000</b>	<b>541.000</b>	<b>7.200.000</b>

TSKB Gayrimenkul Değerleme A.Ş., which is an independent expertise company licensed by CMB, which is not related to the Group, valued the Group's lands, buildings and apartments located in Gazimir / İzmir and its buildings located in Güzelbahçe / İzmir and Ataşehir. The Group Management believes that the valuation companies have professional background and have up-to-date information about the class and location of the investment properties.

According to expertise report dated 30 September 2017, the total fair value of the buildings and lands in Gazimir / İzmir is TL 5,780,000 and the value of the lands in Güzelbahçe / İzmir is 1,050,000 TL and the fair value of buildings in Ataşehir / İstanbul TL 1,122,000. The fair value of real estate is determined by the methods of market value, cost method and Discounted Cash Flow methods respectively.

As of the balance sheet date, there are no liabilities resulting from the construction or development, maintenance, repair or improvement contracts of the investment property.

In the current period, the Group earned TL 81.460 rent income from investment property (31 December 2016: TL 72.090). The mortgage on the investment properties of the Group amounts to TL 15.600.000 (31 December 2016: TL 15.600.000).







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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

13. PROPERTY, PLANT AND EQUIPMENT (continued)

								31 December 2016
Costs	Land	Land Improvements	Buildings	Plants Machinery and Equipment	Vehicles	Furniture and Fixtures	Construction Progress	Total
Opening Balance	17.316.700	914.035	9.173.800	6.322.994	1.101.492	1.881.266	1.215.373	37.925.660
Purchases	-	-	194.000	1.182.896	-	384.528	7.706.170	9.467.594
Disposals	-	-	-	(66.773)	(82.081)	(11.369)	-	(160.223)
Valuation	1.206.232	417.115	(1.247.802)	-	-	-	-	375.545
Adjustment	-	-	-	(611)	-	-	-	(611)
Transfers to Intangible Assets	-	-	-	989.753	-	-	(420.632)	569.121
Transfers from Ongoing Investments	2.778.068	-	4.467.852	507.699	203.390	23.767	(7.913.383)	67.393
Closing Balance	21.301.000	1.331.150	12.587.850	8.935.958	1.222.801	2.278.192	587.528	48.244.479
<u>Accumulated Depreciation and Impairment</u>								
Reported as at 1 January 2016								
Opening Balance	-	(6.436)	(134.842)	(2.726.870)	(487.761)	(1.083.269)	-	(4.439.178)
Period Expense	-	(25.436)	(262.344)	(716.594)	(175.138)	(237.569)	-	(1.417.081)
Transfers to Intangible Assets	-	-	-	(305.641)	-	-	-	(305.641)
Adjustment	-	30.757	395.307	-	-	-	-	426.064
Disposals	-	-	-	66.773	45.061	11.369	-	123.203
Closing Balance	-	(1.115)	(1.879)	(3.682.332)	(617.838)	(1.309.469)	-	(5.612.633)
Carrying Value, net	21.301.000	1.330.035	12.585.971	5.253.626	604.963	968.723	587.528	42.631.846

TSKB Gayrimenkul Değerleme A.Ş., which is an independent expertise company with CMB license, which is not related to the Group, has been evaluated the factory building and building in Çiğli / İzmir and the Factory Building construction in Ankara. The group management believes that the valuation companies have professional background and have up-to-date information about the class and location of the investment property.

According to expertise report dated 30 September 2017, total fair values of factory building and lands located in Çiğli / İzmir amounts TL 33.725.000, the total value of land and factory located in Ankara Industrial Estate set as TL 3.528.000. Property fair values are calculated according to market value method and discounted cash flow methods. There are TL 45.600.000, USD 5.000.000 and EUR 600.000 mortgage over property, plant and equipment





NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

**13. PROPERTY, PLANT AND EQUIPMENT (continued)**

Useful lives of property, plant and equipment are as follows:

	Year
Land Improvements	5
Buildings	50
Plants, Machinery and Equipment	2-10
Plants, Machinery and Equipment (Leasing)	3-10
Vehicles	5
Furniture and Fixtures	2-10

The total amount of depreciation cost of property, plant and equipment is TL 2.330.473 (31 December 2016: TL 1.417.081). The amount of TL 1.612.977 is charged to cost of goods sold (31.12.2016: TL 974.742) (Note 21), TL 273.425 (31 December 2016: TL 142.630) is charged to cost of service sold, TL 16.821 (31 December 2016: TL 8.868) is charged to research and development expenses, TL 64.564 (31 December 2016: TL 53.628) is charged to marketing expense (Note 24), TL 362.686 (31 December 2016: TL 237.213) is charged to general administrative expenses (Note 23).

As of 31 December 2016, there are USD 5.000.000, EUR 600.000 and TL 45.600.000 mortgage on property, plant and equipment (31 December 2016: EUR 600.000, USD 5.000.000 and TL 45.600.000 mortgage on property, plant and equipment). There is TL 8.671.000 insurance coverage (31 December 2016: TL 8.671.000).

**14. INTANGIBLE ASSETS**

	31 December 2017			
<u>Acquisition Cost</u>	<u>Rights</u>	<u>Activated Development Costs</u>	<u>Other Intangible Fixed Assets</u>	<u>Total</u>
<b>Readjusted 1 January 2017</b>	<b>1.201.464</b>	<b>5.424.459</b>	<b>4.637.863</b>	<b>11.263.786</b>
Purchases	205.137	6.654.369	3.353.946	10.213.452
Transfers from Tangible Assets	-	(999.865)	-	(999.865)
Disposals	-	(1.043.075)	(1.462.581)	-
<b>Closing Balance</b>	<b>1.406.601</b>	<b>10.035.887</b>	<b>6.529.228</b>	<b>17.971.716</b>
<b><u>Accumulated Amortization and Period Expense</u></b>	<b>(644.071)</b>	<b>(48.102)</b>	<b>(853.817)</b>	<b>(1.545.990)</b>
<b><u>Period Expense</u></b>	<b>(238.630)</b>	<b>(296.595)</b>	<b>(587.835)</b>	<b>(1.123.060)</b>
Disposals	16.840	-	230.910	247.750
<b>Closing Balance</b>	<b>(865.861)</b>	<b>(344.697)</b>	<b>(1.210.742)</b>	<b>(2.421.300)</b>
<b>Intangible Fixed Assets, net</b>	<b>540.739</b>	<b>9.691.190</b>	<b>5.318.486</b>	<b>15.550.416</b>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

## 14. INTANGIBLE ASSETS (continued)

					31 December 2016
<u>Acquisition Cost</u>	<u>Rights</u>	<u>Leasehold Improvements</u>	<u>Development Costs</u>	<u>Other Intangible Assets</u>	<u>Total</u>
<b>Readjusted 1 January 2016</b>	<b>681.791</b>	<b>--</b>	<b>--</b>	<b>4.346.432</b>	<b>5.028.223</b>
Purchases	96.402	12.754	5.424.459	1.281.184	6.814.799
Transfers from Property, Plant and Equipment	423.271	(2.639)	--	--	420.632
Effect of Consolidation	--	(10.115)	--	--	(10.115)
Transfers to Property, Plant and Equipment	--	--	--	(989.753)	(989.753)
<b>Closing Balance</b>	<b>1.201.464</b>	<b>-</b>	<b>5.424.459</b>	<b>4.637.863</b>	<b>11.263.786</b>
<b>Accumulated Amortization and</b>	<b>(557.227)</b>	<b>--</b>	<b>--</b>	<b>(678.095)</b>	<b>(1.235.322)</b>
<b>Period Expense</b>	<b>(86.844)</b>	<b>--</b>	<b>(48.102)</b>	<b>(481.363)</b>	<b>(616.309)</b>
Effect of Consolidation	--	--	--	--	--
Transfers from Property, Plant and Equipment	--	--	--	305.641	305.641
<b>Closing Balance</b>	<b>(644.071)</b>	<b>--</b>	<b>(48.102)</b>	<b>(853.817)</b>	<b>(1.545.990)</b>
<b>Intangible Assets, net</b>	<b>557.393</b>	<b>--</b>	<b>5.376.357</b>	<b>3.784.046</b>	<b>9.717.796</b>

Intangible assets consist of computer software and user licenses.

Total amortization expense for the current year amounts to TL 1.123.061. (31 December 2016: TL 616.309) (Note 21). TL 413.196 is charged to cost of sales (31 December 2016: TL 508.558), TL 133.859 is charged to general administration expenses (31 December 2016: TL 22.742) (Note 22), TL 567.742 is charged to research and development expenses (31 December 2016: TL 73.140) and TL 8.264 is charged to marketing expenses (31 December 2016: TL 11.869) (Note 23).

Useful life terms of intangible assets are as follows:

	Economic Life
Rights	3-15 years
Other Intangible Fixed Assets	3 years
Capitalized Development Costs	5 years

**Cost of Borrowing**

For the year ended 31 December 2017, the Company capitalized the borrowing costs amounting to TL 739.157 (31 December 2016: None), which can be directly related to the construction of the Factory which is continuing in the Ankara Capital Organized, which was announced on 07.12.2015 at KAP.





NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

**15. LEASES****Operating Leases****The Group as lessee****Leasing Contracts:**

Group has 4 rental agreement related with Ankara and İzmir branch offices and İzmir storage buildings. Also there are 3 vehicle rent agreements.

<b><u>Payments recognized as expenses:</u></b>	<b><u>31 December</u></b> <b><u>2017</u></b>	<b><u>31 December</u></b> <b><u>2016</u></b>
Minimum Rental Payments	1.000.970	844.424
<b><u>Minimum future lease payments:</u></b>	<b><u>31 December</u></b> <b><u>2017</u></b>	<b><u>31 December</u></b> <b><u>2016</u></b>
Within 1 year	1.000.970	844.424

**The Group as lessor**

The lease period for operational leases is the year 2017 which is related to leasing of vehicles, warehouses and offices. All operating leases are subject to reconsideration of conditions according to market conditions. The tenant does not have the right to purchase the property at the end of the lease period.

As of 31 December 2017, the Group earned TL 81.460 revenue from operating leasing (31 December 2016:72.090 TL).

**16. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES**

<b><u>Short-Term Payable Provision</u></b>	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Warranty Expense Provision	376.000	335.900
Provisions for Lawsuits	214.117	45.772
<b>Total</b>	<b>590.117</b>	<b>381.672</b>

**Ongoing Lawsuits and Execution Proceedings**

There are 3 lawsuits amounting TL 214.116 filed and continuing as of 31 December 2017 which Grup raised a provision (31 December 2016: TL 45.772).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

**16. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (continued)****Collateral, Pledges, Mortgages, Sureties**

Collaterals, Pledges, Mortgages and Sureties position table as of 31 December 2017 and 31 December 2016 as below:

	<b><u>31 December</u></b>			
	<b><u>2017</u></b>			
<b><u>CPMS's given by the Company (Collaterals, Pledges, Mortgages, Sureties)</u></b>	<b><u>TL Equivalent</u></b>	<b><u>USD</u></b>	<b><u>EUR</u></b>	<b><u>TL</u></b>
A. CPMS's given for company's own legal personality	179.433.188	9.610.593	13.761.181	81.044.379
B. CPMS's given on behalf of fully consolidated Companies	-	-	-	-
C. CPMS's given of behalf of third parties for ordinary course of business	-	-	-	-
D. CPMS's given within the scope of Corporate Governance Communique's 12/2 clause	-	-	-	-
i) Total amount of CPMS's given on behalf of majorly shareholder	-	-	-	-
ii) Total amount of CPMS's given on behalf of other Group companies which are not in scope of B and C	-	-	-	-
iii) Total amount of CPMS's given on behalf of third parties which are not in scope of C	-	-	-	-
<b>Total</b>	<b>179.433.188</b>	<b>9.610.593</b>	<b>13.761.181</b>	<b>81.044.379</b>

	<b><u>31</u></b>			
	<b><u>December</u></b>			
	<b><u>2016</u></b>			
<b><u>CPMS's given by the Company (Collaterals, Pledges, Mortgages, Sureties)</u></b>	<b><u>TL Equivalent</u></b>	<b><u>USD</u></b>	<b><u>EUR</u></b>	<b><u>TL</u></b>
A. CPMS's given for company's own legal personality	92.540.452	6.584.186	5.459.952	51.813.509
B. CPMS's given on behalf of fully consolidated Companies	-	-	-	-
C. CPMS's given of behalf of third parties for ordinary course of business	-	-	-	-
D. CPMS's given within the scope of Corporate Governance Communique's 12/2 clause	-	-	-	-
i) Total amount of CPMS's given on behalf of majorly shareholder	-	-	-	-
ii) Total amount of CPMS's given on behalf of other Group companies which are not in scope of B and C	-	-	-	-
iii) Total amount of CPMS's given on behalf of third parties which are not in scope of C	-	-	-	-
<b>Total</b>	<b>92.540.452</b>	<b>6.584.186</b>	<b>5.459.652</b>	<b>51.813.509</b>





**KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

Monetary Unit: Turkish Lira ("TL")

**16. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (continued)**

Group have not been given any "Other CPM". (31 December 2016: None).

Collaterals, Pledges, Mortgages and Sureties position table as of 31 December 2017 and 31 December 2016 as below:

	<u>31 December 2017</u>				<u>31 December 2016</u>			
<u>Collaterals,</u>								
<u>Pledges,</u>	<u>Total TL</u>				<u>Total TL</u>			
<u>Mortgages</u>	<u>Equivalents</u>	<u>USD</u>	<u>EUR</u>	<u>TL</u>	<u>Equivalents</u>	<u>USD</u>	<u>EUR</u>	<u>TL</u>
Collaterals	111.568.038	4.610.593	13.161.181	34.748.029	29.818.512	1.584.186	4.859.952	6.213.509
Pledges	696.350	-	-	696.350	-	-	-	-
Mortgages	67.168.800	5.000.000	600.000	45.600.000	65.421.940	5.000.000	600.000	45.600.000
<b>Total</b>	<b>179.433.188</b>	<b>9.610.593</b>	<b>13.761.181</b>	<b>81.044.379</b>	<b>95.240.452</b>	<b>6.584.186</b>	<b>5.459.952</b>	<b>51.813.509</b>

**17. GOVERNMENT GRANTS**

Incentives received by the Group has been recognized under other income, are as follows:

- Group get benefit from SSI for the exemption from employer costs TL 1.237.006 within the scope of various laws of Social Security Institution (31 December 2016: 809.148).
- The Group also get benefit from tender decisions, contracts and payment of stamp duty exemption amounting TL 2.448.225 belonging to various public institutions in the frame of Tax, and Exemption Certificate which is regulated by Ministry of Economy on various dates. (31 December 2016: TL 788.919)
- Company get tax and SSI Premium benefit regarding research and development amounting to TL 562.412 (31 December 2016: 445.616.). Regarding the employee cost, the Company got corporate tax deduction regarding research and development operations amounting to TL 1.321.384 (31 December 2016: 1.404.677)

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

Unused Vacation Provision

**Total****31 December 2017**

1.106.509

**31 December 2016**

711.803

**1.106.509****711.803****Provision for Long-Term Employee Benefits**

Severance Pay Provision

**Total****31 December 2017**

4.500.334

**31 December 2016**

3.498.780

**4.500.334****3.498.780****Scope of Employee Benefit Obligations**

Payables to Personnel

Social Security Premiums Payable

**Total****31 December 2017**

773.746

**31 December 2016**

193.819

1.747.063

1.337.913

**2.520.809****1.331.732**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

**18. EMPLOYEE BENEFITS (continued)**

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.

As at balance sheet date, provisions calculated according to assumption % 5 expected salary increasing rate and % 13,54 inflation rate and retiring assumption as follows. (31 December 2016: %5 expected salary increasing rate, %9,12 inflation rate)

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 December 31, 2017 are calculated by estimating present value of probable liabilities arising due to retirement of employees.

	<u>31 December 2017</u>	<u>31 December 2016</u>
Annual Discount Rate (%)	13,54	9,12
Retiring Probability (%)	95	95

Group's retirement pay provision calculated over amounting to TL 4.732 (31 December 2016: TL 4.297) which is effective from 1 July 2017.

The movement of provision for severance pay are as follows:

	<u>1 January-31 December 2017</u>	<u>1 January-31 December 2016</u>
Provision as of 1 st January	3.498.780	2.609.471
Service Cost	994.145	865.242
Interest Cost	285.085	219.251
Severance Paid	(262.845)	(416.930)
Actuarial Gain / Loss (*)	(14.831)	221.746
<b>Total Provisions as of Period End</b>	<b>4.500.334</b>	<b>3.498.780</b>

(\*) As of 31 December 2017, TL 14.831 (2016: TL 221.746) actuarial gain / losses recognized in other comprehensive income.

The total other service cost and interest costs have been charged to the general administrative, marketing and general production expenses.

**19. OTHER ASSETS AND LIABILITIES**

<u>Other Current Assets</u>	<u>31 December 2017</u>	<u>31 December 2016</u>
Deferred VAT	19.893.001	12.054.163
Work Advances	177.294	270.245
<b>Total</b>	<b>20.070.295</b>	<b>12.324.408</b>





NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

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

Company's capital structure as of 31 December 2017 and 31 December 2016 are as follows:

	<b>31 December 2017</b>		<b>31 December 2016</b>	
	<b>%Rate</b>	<b>Share Amount</b>	<b>Share Rate</b>	<b>Share Amount</b>
<b>Shareholders</b>	<b>(%)</b>	<b>TL</b>	<b>(%)</b>	<b>TL</b>
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
<b>Capital</b>	<b>100,00</b>	<b>25.000.000</b>	<b>100,00</b>	<b>25.000.000</b>
<b>Paid-in Capital</b>		<b>25.000.000</b>		<b>25.000.000</b>

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

Company's paid-in capital is TL 25.000.000 (31 December 2016: 25.000.000 TL) The paid-in capital consists of 25.000.000 registered shares. Each share nominal value is 1 TL. 2.000.000 pcs. of shares nominative A Group and 23.000.000 pcs. of shares are nominal B Group shares. There is not any restriction on Katmerciler shares (31 December 2016 None).

A group shares are privileged and 1.600.000 pcs. owned by İsmail Katmerci, 100.000 pcs. own by Havva Katmerci, 100.000 pcs owned by Mehmet Katmerci, 100.000 pcs owned by Ayşenur Çobanoğlu and 100.000 pcs owned by Furkan Katmerci. Privileged shares give right to owner as mentioned 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 (Treasury Shares)****b-1) Repurchase and reissue of share capital (treasury shares)**

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as "treasury shares owned by the Company" if owned by the Company and classified as "treasury shares owned by the subsidiaries" if owned by subsidiaries and are presented in equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

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, amounting to TL 33.500 nominal valued shares on 15.12.2016 date to amounting to TL 232.648 from 6,91 – 6,96 price range and Company's own shares has been increased to amounting to TL 189.109 after those purchases.

Between 07.04.2017-18.04.2017, the shares with a nominal value of TL 264.971 with total nominal value of TL 75,862 in the price range of 9,55-9,78 have been repurchased with the amount of TL 1,895,196, including TL 733,898.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

**20. CAPITAL, RESERVES AND OTHER EQUITY COMPONENTS (continued)****b-2) Reacquired Shares**

The Company has sold 264,971 owned shares (with cost of TL 1.895.196) that it has repurchased on 16.10.2017 in BİST. Profit generated after sales is shown in the profit or loss in its statutory financial statement and in Share Premiums under the Equity in the TAS financial statements.

**c) Revaluation and Remeasurement Reserve**

	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Property, Plant and Equipment Revaluation and Remeasurement Gain / (Loss)	16.766.665	11.259.003
	<b><u>16.766.665</u></b>	<b><u>11.259.003</u></b>
<b><u>Tangible Assets Revaluation and Remeasurement Gain / (Loss)</u></b>	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Opening Balance	11.259.003	9.976.331
Increase in Value	5.810.997	1.350.607
Deferred Tax Effect	(303.335)	(67.935)
Closing Balance	<b><u>16.766.665</u></b>	<b><u>11.259.003</u></b>

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

	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Defined Benefit Plans Actuarial Gain / Loss	(492.794)	(504.658)
	<b><u>(492.794)</u></b>	<b><u>(504.658)</u></b>

**e) Restricted Reserves**

	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Legal Reserves	3.765.426	3.150.869
<b>Total</b>	<b><u>3.765.426</u></b>	<b><u>3.150.869</u></b>

**f) Retained Profit / (Loss)**

	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Retained Profit / (Loss)	35.553.220	26.570.969
<b>Total</b>	<b><u>35.553.220</u></b>	<b><u>26.570.969</u></b>

**g) Non-controlling Interests**

	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Balance at 1 January	22.571	17.910
Additions / Disposals	3	(3)
Profit / (Loss) Attributable to Non-Controlling Interest	11.406	4.664
Balance at 31 December	<b><u>33.980</u></b>	<b><u>22.571</u></b>

**h) Merge Effect of Common Controlled Entity and Business**

	<b><u>31 December 2017</u></b>	<b><u>31 December 2016</u></b>
Merge Effect of Common Control Transactions (*)	(1.759.039)	(1.759.039)
<b>Total</b>	<b><u>(1.759.039)</u></b>	<b><u>(1.759.039)</u></b>

(\*) Company has been purchased İspan and Profil's TL 89.000 and TL 466.677 nominal number 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 Control Transactions" in equity.





NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

**20. CAPITAL, RESERVES AND OTHER EQUITY COMPONENTS (continued)****ı) Dividend Distribution**

Publicly held companies make their dividend distribution according to CMB's announcement No-II-19, which published at 1 February 2014.

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.

**21. SALES AND COST OF SALES**

<b><u>Sales (net)</u></b>	<b><u>01 January- 31 December 2017</u></b>	<b><u>01 January- 31 December 2016</u></b>
<b>Domestic Sales</b>	<b>101.932.970</b>	<b>78.786.177</b>
- Finished Good Sales	101.932.970	78.786.177
Export Sales	72.621.484	64.101.416
<b>Other Sales</b>	<b>2.855.156</b>	<b>2.016.602</b>
- Other Income	2.855.156	2.016.602
<b>Total</b>	<b>177.409.610</b>	<b>144.904.195</b>
 Return from Sales (-)	 (183.799)	 (320.598)
<b>Sales, (net)</b>	<b>177.225.811</b>	<b>144.583.597</b>
 <b><u>Cost of Sales (-)</u></b>	 <b><u>01 January- 31 December 2017</u></b>	 <b><u>01 January- 31 December 2016</u></b>
-Cost of Services Sold	3.620.767	3.690.096
-Provisions for Severance Payments	822.338	805.378
-Cost of Finished Goods Sold	79.373.897	77.845.606
-Cost of Commercial Goods Sold	2.599.374	4.425.629
-Cost of Other Sales	-	1.380.423
<b>Cost of Sales</b>	<b>86.416.376</b>	<b>88.147.132</b>
<b>Gross Profit (Loss)</b>	<b>90.809.435</b>	<b>56.436.465</b>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

**22. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES AND RESEARCH AND DEVELOPMENT EXPENSES**

	<b><u>01 January- 31 December 2017</u></b>	<b><u>01 January- 31 December 2016</u></b>
General Administrative Expenses (-)	19.190.338	13.136.245
Marketing Expenses (-)	18.790.115	15.009.793
Research and Development Expenses (-)	872.722	1.500.054
<b>Total</b>	<b>38.853.175</b>	<b>29.646.092</b>
<b><u>Research and Development Expenses (-)</u></b>	<b><u>01 January- 31 December 2017</u></b>	<b><u>01 January- 31 December 2016</u></b>
Contribution Expenses	3.839	5.372
Depreciation Expenses	584.563	82.008
Training Expenses	--	18.508
Equipment Expenses	61.493	938.352
Consultancy Expenses	25.540	43.135
Personnel Expenses	171.821	371.511
Other Expenses	25.466	41.168
<b>Total</b>	<b>872.722</b>	<b>1.500.054</b>
<b><u>Marketing Expenses (-)</u></b>	<b><u>01 January- 31 December 2017</u></b>	<b><u>01 January- 31 December 2016</u></b>
Personnel Expenses	4.890.475	3.889.395
Domestic Sales, Service, Commission Expenses	3.254.894	1.924.206
Export Commissions	2.441.289	3.650.645
Export Expenses	1.840.979	642.510
Tax, Duties and Fees	973.925	343.103
Exhibition Expense	884.418	1.243.304
Other Expenses	672.327	424.004
Rent Expenses	649.870	632.165
Travelling Expense	631.485	579.910
Services Rendered from 3rd Parties	525.986	119.498
Transportation Expense	465.266	374.168
Tender Expense	394.054	285.812
Entertainment Expenses	353.518	178.208
Insurance Expense	224.117	142.996
Electricity, Water and Heating Expenses	222.139	207.625
Court case Execution and Notary Expense	184.613	161.850
Depreciation Expenses	72.829	65.497
Advertising Expenses	42.581	34.892
Communication Expense	38.687	40.594
Maintenance Expenses	20.633	18.089
Contribution Expenses	6.030	51.322
<b>Total</b>	<b>18.790.115</b>	<b>15.009.793</b>





NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

**22. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES AND RESEARCH AND DEVELOPMENT EXPENSES (continued)**

<u>General Administrative Expenses (-)</u>	<u>01 January- 31 December 2017</u>	<u>01 January- 31 December 2016</u>
Personnel Expenses	9.970.769	7.968.526
Consulting Expenses	1.577.636	664.159
Tax, Duties and Fees	658.754	214.858
Travelling Expense	592.598	418.748
Donations and Grants	500.715	440.000
Depreciation Expenses	496.545	259.955
Advertising Expenses	440.456	205.799
Rent Expenses	360.081	145.512
Services Rendered from 3rd Parties	295.883	104.440
Electricity, Water and Heating Expenses	193.689	108.799
Consulting Expenses	186.162	253.097
Contribution Expenses	172.682	183.937
IT Expense	120.309	57.928
Maintenance Expenses	94.076	25.497
Communication Expense	90.243	56.080
Court case Execution and Notary Expense	56.098	38.205
Insurance Expense	50.462	75.718
Various Expenses	3.333.179	1.914.987
<b>Total</b>	<b>19.190.338</b>	<b>13.136.245</b>

**23. EXPENSES BY NATURE**

<u>Depreciation Expense</u>	<u>01 January- 31 December 2017</u>	<u>01 January- 31 December 2016</u>
General Production Expenses	1.612.977	974.742
Service Cost	273.425	142.630
Research and Development Expenses	16.821	8.868
Marketing Expenses	64.564	53.628
General Administrative Expenses	362.686	237.213
<b>Total</b>	<b>2.330.473</b>	<b>1.417.081</b>

<u>Amortization Expenses</u>	<u>01 January- 31 December 2017</u>	<u>01 January- 31 December 2016</u>
General Production Expenses	413.196	508.558
Research and Development Expenses	567.742	73.140
Marketing Expenses	8.264	11.869
General Administrative Expenses	133.859	22.742
<b>Total</b>	<b>1.123.061</b>	<b>616.309</b>

<u>Personnel Expenses</u>	<u>01 January- 31 December 2017</u>	<u>01 January- 31 December 2016</u>
Personnel Expenses	34.524.520	27.102.391
Severance Pay Expense	1.279.230	1.084.493
Vacation Provision Expense	394.706	149.679
<b>Total</b>	<b>36.198.456</b>	<b>28.336.563</b>



**KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

Monetary Unit: Turkish Lira ("TL")

**24. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES**

<b><u>Other Operating Income</u></b>	<b><u>01 January- 31 December 2017</u></b>	<b><u>01 January- 31 December 2016</u></b>
Reversal of Provisions	817.090	1.685.916
Foreign Exchange Differences from Activities	22.466.879	15.988.262
Rediscount Income	1.101.844	776.594
Other	2.123.695	346.132
<b>Total</b>	<b>26.509.508</b>	<b>18.796.904</b>

<b><u>Other Operating Expenses</u></b>	<b><u>01 January- 31 December 2017</u></b>	<b><u>01 January- 31 December 2016</u></b>
Provision Expense (-)	(533.547)	352.335
Foreign Exchange Differences from Activities (-)	(14.125.155)	5.392.288
Rediscount Expense (-)	(1.098.170)	984.008
Expenses According to 6736 Tax Law (-)	-	1.606.595
Other	(436.935)	43.411
<b>Total</b>	<b>(16.193.807)</b>	<b>8.378.637</b>

**25. INCOME AND EXPENSES FROM INVESTING OPERATIONS**

<b><u>Other Income from Investing Activities</u></b>	<b><u>01 January- 31 December 2017</u></b>	<b><u>01 January- 31 December 2016</u></b>
Rental Income	81.460	72.090
Fair Value of Change Investment Property	752.000	541.000
Gain on Sale of Property, Plant and Equipment	398.090	16.924
Income from Marketable Securities	2.876.778	76.042
Interest Income	1.279.911	554.488
Other	-	14
<b>Total</b>	<b>5.388.239</b>	<b>1.260.558</b>

<b><u>Other Expense from Investing Activities (-)</u></b>	<b><u>01 January- 31 December 2017</u></b>	<b><u>01 January- 31 December 2016</u></b>
Loss from Marketable Securities	2.800.263	-
Impairment Loss on Property, Plant and Equipment	-	557.089
<b>Total</b>	<b>2.800.263</b>	<b>557.089</b>





**KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

Monetary Unit: Turkish Lira ("TL")

**26. FINANCIAL INCOME AND EXPENSES**

<b><u>Financial Income</u></b>	<b><u>01 January- 31 December 2017</u></b>	<b><u>01 January- 31 December 2016</u></b>
Foreign Exchange Gains	12.662.283	2.567.257
<b>Total</b>	<b>12.662.283</b>	<b>2.567.257</b>
<b><u>Financial Expense</u></b>	<b><u>01 January- 31 December 2017</u></b>	<b><u>01 January- 31 December 2016</u></b>
Interest and Commission Expense (-)	32.971.217	16.363.083
Foreign Exchange Losses (-)	30.080.728	12.557.520
<b>Total</b>	<b>63.051.945</b>	<b>28.920.603</b>

**27. INCOME TAXES**

		<b>2017</b>		<b>2016</b>
Profit for the year		11.751.574		9.601.472
Less: current period tax expense		(2.718.701)		(1.957.291)
<b>Profit/loss before tax</b>	<b>%</b>	<b>14.470.275</b>	<b>%</b>	<b>11.558.763</b>
Calculated tax via statutory rate	20%	(2.894.055)	20%	(2.311.753)
Non-deductible expenses	3%	(503.477)	3%	(338.864)
Discounts / exceptions	-9%	1.286.550	-13%	1.487.920
Other	4%	(607.718)	7%	(794.594)
<b>Total tax income/(expense) recognized in profit or loss</b>	<b>15%</b>	<b>(2.718.701)</b>	<b>10%</b>	<b>(1.957.291)</b>

**Corporate Tax**

The Group is subject to corporate tax resolutions applied in Turkey. Provision is made in the accompanying financial statements for the estimated tax liabilities related to the Group's results for the current period.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective tax rate in 2017 is %20 (2016: %20).

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate is 20% in 2017 (2016: 20%). Losses are allowed to be carried 5 years maximum to be deducted from the taxable profit of the following years. However, losses occurred cannot be deducted from the profit occurred in the prior year's retroactively.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

**27. INCOME TAXES (continued)****Income Tax Withholding**

In addition to corporate taxes, for which 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 for the period 24 April 2003 - 22 July 2006 was 10%. This rate changed starting from 22 July 2006 with the decision of Council of Minister numbered 2006/10731 to be 15%. Undistributed dividends incorporated in share capital are not subject to income tax withholding.

	<u>Deferred Tax</u> <u>Income</u>		<u>Deferred Tax</u> <u>Expense</u>		<u>Deferred Tax</u> <u>Income/Expense</u>	
	2017	2016	2017	2016	2017	2016
Property, plant and equipment and intangible assets		196.338	(128.624)	-	(128.624)	196.338
Provisions	227.560	-	-	(61.551)	227.560	(61.551)
Rediscount	8.903	18.733	-	-	8.903	18.733
Inventory Impairment	101.143	-	-	(31.564)	101.143	(31.564)
Severance Pay	96.347	133.513	-	-	96.347	133.513
Investment property			(37.600)	(27.050)	(37.600)	(27.050)
Other	(40.084)	11.139			(40.084)	11.139
<b>Total Deferred Tax Income/(Expense)</b>	<b>393.869</b>	<b>359.722</b>	<b>(166.224)</b>	<b>(120.165)</b>	<b>227.644</b>	<b>239.557</b>
Set Off of Tax	(166.224)	(120.165)	166.224	120.165	--	--
<b>Net Deferred Tax Income/(Expense)</b>	<b>227.644</b>	<b>239.557</b>	<b>--</b>	<b>--</b>	<b>227.644</b>	<b>239.557</b>

**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. (2016: %20)





NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

**27. INCOME TAXES (continued)**

The details of tax income / expense for the years ended 31 December are as follows:

	2017	2016
<b><u>Income tax expense recognized in profit or loss</u></b>		
<b>Current tax expense</b>		
Current tax expense	(2.946.345)	(2.196.848)
<b><u>Deferred tax income/(expense):</u></b>		
Arising from Temporary Differences	227.644	239.557
	<b>(2.718.701)</b>	<b>(1.957.291)</b>
<b><u>Recognized in Other Comprehensive Income</u></b>		
<b>Deferred tax income/(expense):</b>		
Tax effects of actuarial differences	(2.965)	44.349
Revaluation reserves tax effect	(303.335)	(65.912)
<b>Total</b>	<b>(306.300)</b>	<b>(21.563)</b>
<b>Total tax effect income/ (expense)</b>	<b>(3.025.001)</b>	<b>(1.978.854)</b>

***Current Period Tax Assets/Liabilities***

	31 December 2017	31 December 2016
Assets related to current period tax	746	2.193
Liabilities related to current period tax payable	-	-
<b>Balance at 31 December</b>	<b>746</b>	<b>2.193</b>

***Current tax reconciliation***

	31 December 2017	31 December 2016
Balance at 1 January	(2.193)	(2.193)
Recognized in profit or loss	2.946.345	2.196.848
Paid	(2.944.898)	(2.196.848)
<b>Balance at 31 December</b>	<b>(746)</b>	<b>(2.193)</b>

***Current Period Tax Assets/Liabilities***

	31 December 2017	31 December 2016
Deferred Tax Asset	9.338.356	7.616.646
Deferred Tax Liabilities	(7.417.636)	(5.617.270)
<b>Balance at 31 December</b>	<b>1.920.720</b>	<b>1.999.376</b>



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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

Monetary Unit: Turkish Lira ("TL")

**27. INCOME TAXES (continued)**

**Reconciliation Deferred Tax**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Balance at 1 January	1.999.376	1.870.081
Recognized in profit or loss	227.644	239.557
Recognized in other comprehensive income	(306.300)	(21.563)
Other	--	(88.699)
<b>Balance at 31 December</b>	<b>1.920.720</b>	<b>1.999.376</b>

**28. EARNING PER SHARE**

<b>Balances with Related Parties</b>	<b>1 January 2017-31 December 2017</b>	<b>1 January 2016-31 December 2016</b>
Net Profit / (Loss), attributable to the owner of the Company	11.740.168	9.596.808
Weighted Average Number of Shares	25.000.000	25.000.000
Earnings / (Loss) Per Share from Operating Activities	0,470	0,384

**29. RELATED PARTY DISCLOSURES**

	<b>31 December 2017</b>			
	<b>Receivable</b>		<b>Liabilities</b>	
	<b>Short-Term</b>		<b>Short-Term</b>	
<b>Balances with Related Parties</b>	<b>Trade</b>	<b>Non-Trade</b>	<b>Trade</b>	<b>Non-Trade</b>
Ktm Gayrimenkul Yatırım Tah.Tic.A.Ş.(*)	526.810	--	--	--
Ktm İş ve Endüstriyel Mak.Tic.A.Ş.	521.775	--	--	--
<b>Total</b>	<b>1.048.585</b>	<b>--</b>	<b>--</b>	<b>--</b>

(\*) The advances given amounting to TL 7.505.275 disclosed in the prepaid expenses comprises the balances paid for the investments in the Ankara Industrial Zone.

	<b>31 December 2016</b>			
	<b>Receivable</b>		<b>Liabilities</b>	
	<b>Short-Term</b>		<b>Short-Term</b>	
<b>Balances with Related Parties</b>	<b>Trade</b>	<b>Non-Trade</b>	<b>Trade</b>	<b>Non-Trade</b>
Shareholders	142.290	--	--	--
Ktm Gayrimenkul Yatırım Tah.Tic.A.Ş.	69.212	--	--	--
Ktm İş ve Endüstriyel Mak.Tic.A.Ş.	476.126	--	--	--
<b>Total</b>	<b>687.628</b>	<b>--</b>	<b>--</b>	<b>--</b>





**KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

Monetary Unit: Turkish Lira ("TL")

**29. RELATED PARTY DISCLOSURES (continued)**

Transactions with related parties between 01.01.-31 December 2017 and 01.01.-31 December 2016 as follows:

**01 January - 31 December 2017**

<b>Transactions with Related Parties</b>	<b>Services Gathered</b>	<b>Services Provided</b>
Shareholders (*)	239.400	4.956
Related Party	--	--
Ktm Gayrimenkul Yatırım Tah.Tic.A.Ş.(**)	2.705.560	--
Ktm İş ve Endüstriyel Mak.Tic.A.Ş.	--	7080
<b>Total</b>	<b>2.944.960</b>	<b>12.036</b>

(\*) It is a result of the leasing of the properties owned by the shareholders.

(\*\*) The amount is related with construction cost of management building located in ve İzmir AOSB and production facility located in Ankara Industrial Zone.

**01 January - 31 December 2016**

<b>Transactions with Related Parties</b>	<b>Services Gathered</b>	<b>Services Provided</b>
Shareholders	228.000	4.248
Related Party	--	--
Ktm Gayrimenkul Yatırım Tah.Tic.A.Ş.(*)	4.581.720	--
Ktm İş ve Endüstriyel Mak.Tic.A.Ş.	--	1770
<b>Total</b>	<b>4.809.720</b>	<b>6.018</b>

(\*) The amount is related with construction cost of management building located in ve İzmir AOSB and production facility located in Ankara Industrial Zone.

**30. KEY MANAGEMENT PERSONNEL**

The Group's top management consists of Chairman of the executive Board and Board members, general manager, executive president and vice president, chief financial officer, export sales director. Benefits to key management personals for the period 1 January-31 December 2017 and 1 January-31 December 2016 are as listed below:

<b>Benefits to Key Personnel</b>	<b>01.01-31 December 2017</b>	<b>01.01-31 December 2016</b>
Salary, premium etc.	3.378.573	5.630.460
Severance Pay Provision	52.694	39.660
<b>Total</b>	<b>3.431.267</b>	<b>5.670.120</b>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

Monetary Unit: Turkish Lira ("TL")

**31. 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 share capital structure consists of the financial liabilities disclosed in Note 6, the cash and cash equivalents disclosed in Note 4 and paid-in capital, other reserves, premiums / discounts on shares, revaluation gains and losses, including the restated measurement of profit / loss, defined benefit plans, retained earnings / losses, retained earnings reserves and retained earnings/losses disclosed in Note 22.

Group's capital cost and risks regarding capital are evaluated by the management. According to the evaluation company aim to equalize 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 calculated by dividing net liabilities to total equity. Net liabilities are calculated as by cash and cash equivalents total liabilities.

Equity to debts ratio as of 31 December 2017 and 2016 are as follows:

	<b>31 December 2017</b>	<b>31 December 2016</b>
Financial Liabilities	319.301.089	164.776.461
Less: Cash and Cash Equivalents	(35.952.961)	(6.161.712)
Net Financial Liabilities	283.348.128	158.614.749
Total Equity	92.446.799	72.175.225
Liabilities / Equity Ratio	3,06	2,20

The Group's current capital risk management strategy is in line with previous periods.

**b) Financial Risk Factors**

The Group's activities are exposed 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 minimize potential reverse effects on the Company's financial performance.

**b.1) Credit Risk**

Credit risk is the risk that a counterparty cannot fulfill its obligations in the agreements that the Group is party to. The Group monitors the credit risk by credit ratings and limitations to the total risk of a single counterparty. The credit risk is diversified as a result of large number of entities comprising the customer bases and the penetration to different business segments.







**31. QUALITY AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (continued)**

**b) Financial Risk Factors (continued)**

**b.1) Credit Risk (continued)**

Types of credit risks subject to financial instruments:

31 December 2017	Receivables					Cash and Cash Equivalents
	Trade Receivables		Other Receivables			
Current Period	Related Parties	3rd Parties	Related Parties	3rd Parties	Banks Deposit	
The maximum amount of exposure to credit risk at the end of the reporting period						
(A+B+C+D) (1)	1,048,585	126,933,529	-	3,954,782	35,952,961	
- Total receivable that have been secured with collaterals, other credit enhancements etc.	-	-	-	-	-	
A. Financial assets that are either past due or impaired (2)	1,048,585	126,933,529		3,954,782	35,952,961	
B. The amount of financial assets that are past due as at the end of reporting period but not impaired	-		-	-	-	
C. The amount of financial assets that are impaired (3)	-	-	-	-	-	
- Overdue (gross book value)	-		-	-	-	
- Impairment (-)	-	3,519,568	-	-	-	
- Net value guaranteed with collateral etc.	-	(3,519,568)	-	-	-	
- 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 THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

Monetary Unit: Turkish Lira ("TL")

**31. QUALITY AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (continued)**

**b) Financial Risk Factors (continued)**

**b.1) Credit Risk (continued)**

**Types of credit risks subject to financial instruments:**

31 December 2016	Receivables					Cash and Cash Equivalents Trade Receivables
	Trade Receivables		Other Receivables			
Current Period	Related Parties	3rd Parties	Related Parties	3rd Parties	Related Parties	
The maximum amount of exposure to credit risk at the end of the reporting period						
(A+B+C+D) (1)	687.628	98.712.534	-	2.698.570	6.142.724	
- Total receivable that have been secured with collaterals, other credit enhancements etc.	-	-	-	-	-	
A. Financial assets that are either past due or impaired (2)						
B. The amount of financial assets that are past due as at the end of reporting period but not impaired	687.628	98.712.534		2.698.570	6.142.724	
C. The amount of financial assets that are impaired (3)	-	-	-	-	-	
- Overdue (gross book value)	-	-	-	-	-	
- Impairment (-)	-	2.911.976	-	-	-	
- Net value guaranteed with collateral etc.	-	(2.911.976)	-	-	-	
- Not overdue (gross book value)	-	-	-	-	-	
- Impairment (-)	-	-	-	-	-	
- Net value guaranteed with collateral etc.	-	-	-	-	-	
D. Off balance sheet credit risk amount	-	-	-	-	-	

(1) It was not considered collaterals taken which is raising credit reliability when the amounts was determined

(2) All of the trade receivables are receivables from clients. Company management predicted that It would not be encountered any problem regarding Collection of Receivables because of considering their past experiences.

(3) Impairment tests, Company's receivables from customers regarding the policy framework set by the management is made in doubtful receivables.





**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

Monetary Unit: Turkish Lira ("TL")

**31. QUALITY AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (continued)**

**b) Financial Risk Factors (continued)**

**b.2) Liquidity Risk Management**

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements. The Company's objective is to maintain a balance between current assets and liabilities through close monitoring of payment plans and cash projections. The Company manages short, medium and long-term funding and liquidity management requirements 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.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual payments. The Company does not have any derivative liabilities.

**Current Period**

Terms According to Agreements	Book Value	According to the Contracts	Up to 3 months (I)	3 to 12 months (II)	1 to 5 years (III)
		Total Cash Outflows (=I+II+III+IV)			
<b>Non-derivative financial liabilities</b>	<b>368.904.796</b>	<b>368.904.796</b>	<b>57.489.344</b>	<b>154.297.976</b>	<b>157.117.476</b>
Bank Credits	255.316.198	255.316.198	29.481.492	71.991.121	153.843.585
Principals and Interest Payments of Long-Term Loans	7.493.303	7.493.303	7.493.303	-	-
Issued Bond	51.859.479	51.859.479	-	51.859.479	-
Financial Leasing Liabilities	4.632.109	4.632.109	458.482	899.736	3.273.891
Trade Payables	45.541.960	45.541.960	15.994.320	29.547.640	-
Other Payables	4.061.747	4.061.747	4.061.747	-	-
<b>TOTAL</b>	<b>368.904.796</b>	<b>368.904.796</b>	<b>57.489.344</b>	<b>154.297.976</b>	<b>157.117.476</b>

**Previous Period**

Terms According to Agreements	Book Value	According to the Contracts	Up to 3 months (I)	3 to 12 months (II)	1 to 5 years (III)
		Total Cash Outflows (=I+II+III+IV)			
<b>Non-derivative financial liabilities</b>	<b>202.392.437</b>	<b>202.392.437</b>	<b>50.863.331</b>	<b>99.614.751</b>	<b>51.914.354</b>
Bank Credits	107.197.223	107.197.223	20.956.332	36.409.491	49.831.399
Principals and Interest Payments of Long-Term Loans	5.067.140	5.067.140	5.067.140	-	-
Issued Bond	49.415.666	49.415.666	-	49.415.666	-
Financial Leasing Liabilities	3.096.432	3.096.432	332.950	680.527	2.082.955
Trade Payables	35.753.887	35.753.887	22.644.820	13.109.067	-
Other Payables	1.862.089	1.862.089	1.862.089	-	-
<b>TOTAL</b>	<b>202.392.437</b>	<b>202.392.437</b>	<b>50.863.331</b>	<b>99.614.751</b>	<b>51.914.354</b>

**b.3) 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 another price risk.

In the current year, the Group's exposure to market risks or exposures to the risk management and assessment, has not changed compared to the previous year.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

**31. QUALITY AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (continued)****b) Financial Risk Factors (continued)****b.3) Market Risk Management (continued)****b.3.1) 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:

CONSOLIDATED EXCHANGE POSITION TABLE								
	31 December 2017				31 December 2016			
	TL Equivalent	USD	Euro	GBP	TL Equivalent	USD	Euro	GBP
1.Trade Receivables	112.950.337	13.830.102	13.461.316	-	70.561.877	9.472.878	10.033.943	-
2a. Monetary Financial Assets (including cash and bank accounts)	16.280.161	2.444.995	1.562.946	80	2.681.875	427.582	317.294	-
2b. Non-Monetary Financial Assets	27.370.012	1.683.411	4.652.897	2.008	8.054.318	870.289	1.345.481	-
3.Other	-	-	-	-	-	-	-	-
4.Current Assets (1+2+3)	156.600.510	17.958.509	19.677.159	2.088	81.298.070	10.770.749	11.696.717	-
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)	156.600.510	17.958.509	19.677.159	2.088	81.298.070	10.770.749	11.696.717	-
10.Trade Payables	24.038.583	986.381	4.499.621	-	12.974.100	474.895	3.046.236	375
11.Financial Liabilities	53.029.460	66.196	11.688.578	-	48.760.647	194.126	12.959.239	-
12a.Other Monetary Financial Liabilities	19.587	2.799	2.000	-	3.235.653	808.883	104.863	-
12b.Other Non-Monetary Financial Liabilities	21.388.884	4.459.094	1.011.987	-	5.317.899	719.391	751.023	-
13.Short-Term Liabilities (10+11+12)	98.476.514	5.514.470	17.202.186	-	70.288.299	2.197.295	16.861.360	375
14.Trade Payables	-	-	-	-	-	-	-	-
15.Financial Liabilities	66.658.170	147.382	14.638.968	-	18.082.505	342.258	4.549.457	-
16a.Other Monetary Financial Liabilities	-	-	-	-	-	-	-	-
16b.Other Non-Monetary Financial Liabilities	-	-	-	-	-	-	-	-
17.Long-Term Liabilities (14+15+16)	66.658.170	147.382	14.638.968	-	18.082.505	342.258	4.549.457	-
18.Total Liabilities (13+17)	165.134.684	5.661.851	31.841.154	-	88.370.804	2.539.553	21.410.817	375
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)	(8.534.175)	12.296.658	(12.163.995)	2.088	(7.072.734)	8.231.196	(9.714.100)	(375)
21.Monetary Items Net Foreign Currency Assets / (Liability) Position (IFRS 7. B23) (1+2a+5+6a-10-11-12a-14-15-16a)	(14.515.303)	15.072.341	(15.804.905)	80	(9.809.153)	8.080.299	(10.308.558)	(375)
22. Total Fair Value of Financial Instruments Used for Currency Hedge	-	-	-	-	-	-	-	-





NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

Monetary Unit: Turkish Lira ("TL")

**31. QUALITY AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (continued)****b) Financial Risk Factors (continued)****b.3) Market Risk Management (continued)****b.3.1) Foreign Exchange Risk Management (continued)**

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

The following table details the Company's sensitivity to a 10% increase and decrease in the TL against USD, Euro. 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			
31 December 2017			
	Profit / Loss		Equity
	Appreciated Exchange Rate	Depreciated Exchange Rate	Appreciated Exchange Rate
Increase of 10% change in USD against TL:			
1-USD Net Assets / Liabilities	4.638.176	(4.638.176)	-
2-The Amount of USD Hedging (-)	--	--	-
3-USD Net Effect (1+2)	4.638.176	(4.638.176)	-
Increase of 10% change in EUR against TL:			
4- EUR Net Assets / Liabilities	(5.492.652)	5.492.652	-
5-The Amount of EUR Hedging (-)	--	--	-
6-EUR Net Effect (4+5)	(5.492.652)	5.492.652	-
TOTAL (3+6)	(854.476)	854.476	-
Increase of 10% change in Other Currency against TL:			
7- Other Net Assets / Liabilities	1.061	(1.061)	-
8- The Amount of Other Hedging (-)	--	--	-
9- Other Net Effect (7+8)	1.061	(1.061)	-
TOTAL (6+9)	(853.415)	853.415	-
Exchange Rate Analysis Table			
31 December 2016			
	Profit/Loss		Equity
	Appreciated Exchange Rate	Depreciated Exchange Rate	Appreciated Exchange Rate
Increase of 10% change in USD against TL:			
1-USD Net Assets / Liabilities	2.896.723	(2.896.723)	-
2-The Amount of USD Hedging (-)	--	--	-
3-USD Net Effect (1+2)	2.896.723	(2.896.723)	-
Increase of 10% change in EUR against TL:			
4- EUR Net Assets / Liabilities	(3.603.834)	3.603.834	-
5-The Amount of EUR Hedging (-)	--	--	-
6-EUR Net Effect (4+5)	(3.603.834)	3.603.834	-
TOTAL (3+6)	(707.111)	707.111	-
Increase of 10% change in Other Currency against TL:			
7- Other Net Assets / Liabilities	(162)	162	-
8- The Amount of Other Hedging (-)	--	--	-
9- Other Net Effect (7+8)	(162)	162	-
TOTAL (6+9)	(707.273)	707.273	-



**31. QUALITY AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (continued)****b) Financial Risk Factors (continued)****b.3) Market Risk Management (continued)****b.3.2) Interest Rate Risk Management**

The Company borrows funds at fixed and variable rates that the Company is exposed to interest rate risk. By the Company, such risk is managed between fixed and variable rate debt by making an appropriate distribution with the interest rate swap contracts and term interest rate contracts. Hedging strategies, with the interest rate expectations and defined risk, is evaluated on a regular basis. Thus, the creation of an optimal hedging strategy, is intended to control review to balance sheet position and interest payments with different interest rates.

The interest rate risk table as at 31 December 2017 and 31 December 2016 are presented as below:

Interest Position Table		Current Period	Previous Period
<b>Fixed-Rate Financial Instruments</b>			
	Financial assets fair value differences reflected to income statement	-	-
Financial Assets	Cash and Cash Equivalents		-
Financial Liabilities		<b>220.656.480</b>	<b>92.485.375</b>
Euro Loans		96.539.361	45.756.077
Usd Loans		--	1.005.490
TL Loans		111.991.707	37.560.236
Principal Payments of Long-Term Loans		7.493.303	5.067.140
Leasing Payables		4.632.109	3.096.432
<b>Floating-rate Financial Instruments</b>			
Financial Assets		--	--
Financial Liabilities		<b>98.644.609</b>	<b>72.291.086</b>
Euro Loans		17.590.130	14.653.626
Usd Loans		--	599.514
TL Loans		29.195.000	7.622.280
Issued Bonds		51.859.479	49.415.666

Group's financial liabilities are mainly fixed rated borrowings. In addition, Company is exposed to interest rate risk because of floating-rated financial liabilities. As at 31 December 2017, if interest rate for USD, Euro and TL currencies were %1 higher/lower 100 basis point and all other variables were fixed period profit before tax would be approximately TL 123.301 (31 December 2016: TL 539.882) lower/higher.





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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

Monetary Unit: Turkish Lira ("TL")

**32. FINANCIAL INSTRUMENTS (FAIR VALUE OF FINANCIAL RISK MANAGEMENT DISCLOSURES)**

Group management think that the carrying values of financial instruments represent their fair values.

31 December 2017	Financial Assets at Fair Value Through Profit or Loss	Loans and Receivables (Including Cash and Cash Equivalents)	Financial Assets Available for Sale	Financial Liabilities are Measured at Amortized Cost	Book Value	Note
<b>Financial Assets</b>						
Cash and Cash Equivalents	--	35.952.961	--	--	35.952.961	4
Trade Receivables	--	127.982.114	--	--	127.982.114	7
Financial Investments	186.977	--	--	--	186.977	5
<b>Financial Liabilities</b>						
Financial Payables	--	--	--	319.301.089	319.301.089	6
Trade Payables	--	--	--	45.541.960	45.541.960	7
<b>31 December 2016</b>						
<b>Financial Assets</b>						
Cash and Cash Equivalents	--	6.161.712	--	--	6.161.712	6
Trade Receivables	--	99.400.162	--	--	99.400.162	9
Financial Investments	1.076.191	--	--	--	1.076.191	7
<b>Financial Liabilities</b>						
Financial Payables				164.776.461	164.776.461	8
Trade Payables				35.753.887	35.753.887	9



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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

Monetary Unit: Turkish Lira ("TL")

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

Financial Instrument fair values determine as follows;

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

**31 December 2017**

**Financial Assets**

Financial assets at fair value  
Through profit or loss

**Total**

**Fair Value Level as at the Reporting Date**

<u>Total</u>	<u>1. Level (TL)</u>	<u>2. Level (TL)</u>	<u>3. Level (TL)</u>
186.977	186.977	-	-
<b>186.977</b>	<b>186.977</b>	-	-

**31 December 2016**

**Financial Assets**

Financial assets at fair value  
Through profit or loss

**Total**

**Fair Value Level as at the Reporting Date**

<u>Total</u>	<u>1. Level (TL)</u>	<u>2. Level (TL)</u>	<u>3. Level (TL)</u>
1.076.191	1.076.191	-	-
<b>1.076.191</b>	<b>1.076.191</b>	-	-





### 33. SUBSEQUENT EVENTS

#### 31 December 2017:

- As at 31 December 2017, TL 4.732 severance pay ceiling has been increased to TL 5.001 to be effective from 1 January 2018.
- In response to written application of our shareholders to our Company, a total of TL 7,920,000 (Mr. İsmail Katmerci; TL3.920.000, Mr. Mehmet Katmerci; TL 1.000.000, Mrs. Havva Katmerci; TL1.000.000, Mr. Furkan Katmerci; TL 1.000.000, Mrs. Ayşe Nur Çobanoğlu; TL 1.000.000) nominal value group B shares was referred to the Central Registry Agency for conversion to the tradable shares on the Borsa İstanbul Stok Exchange regarding the bearer shares. Thus, related shares were registered.

