

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

CONVENIENCE TRANSLATION INTO ENGLISH

OF CONSOLIDATED FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2016 AND AUDITOR'S REPORT

**CONVENIENCE TRANSLATION OF THE INDEPENDENT AUDITORS' REPORT
ORIGINALLY PREPARED AND ISSUED IN TURKISH TO ENGLISH**

Katmerciler Araçüstü Ekipman Sanayi ve Ticaret A.Ş.

To the Board of Directors

1. We have audited the accompanying consolidated financial statements of Katmerciler Araçüstü Ekipman Sanayi ve Ticaret Anonim Şirketi ("the Company") and its subsidiaries (collectively referred to as "the Group") which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements 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 notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

2. Group management is responsible for the preparation and fair presentation of these financial statements in accordance with Turkish Accounting Standards, 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.

Auditors' Responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with standards on auditing issued by the Capital Markets Board of Turkey ("CMB") and Standards on Auditing which is a component of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

4. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Katmerciler Araçüstü Ekipman Sanayi ve Ticaret A.Ş. and It's subsidiary as of December 31, 2016, and of its financial performance and its cash flows for the period then ended in accordance with Turkish Accounting Standards (Note 2).

Reports on other responsibilities arising from regulatory requirements

5. Auditors' report on Risk Management System and Committee prepared in accordance with subparagraph 4, Article 398 of Turkish Commercial Code no. 6102 ("TCC") is submitted to the Board of Directors of the Group on 13 March 2017.
6. In accordance with subparagraph 4, Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January — 31 December 2016 and financial statements are not in compliance with the code and provisions of the Group's articles of association in relation to financial reporting.
7. In accordance with subparagraph 4, Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

İstanbul, 13 March 2017

AC İSTANBUL ULUSLARARASI BAĞIMSIZ DENETİM VE SMMM A.Ş.
MEMBER OF ENTERPRISE WORLDWIDE

Cemal Öztürk, CPA
Partner

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND IT'S SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2016
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

ASSETS	Notes	Audited Current Period 31.12.2016	Audited Previous Period 31.12.2015
CURRENT ASSETS		224.326.660	177.197.627
Cash and Cash Equivalents	6	6.161.712	16.981.050
Financial Investments	7	1.076.191	-
Trade Receivables		99.400.162	76.199.845
- Trade Receivables from Related Parties	9-37	687.628	455.869
- Trade Receivables from 3rd Parties	9	98.712.534	75.743.976
Other Receivables		2.677.752	7.979.177
- Other Receivables from Related Parties	10-37	-	-
- Other Receivables from 3rd Parties	10	2.677.752	7.979.177
Inventories	12	92.239.330	59.656.872
Prepaid Expenses	13	10.444.912	5.943.978
Assets Related with Current Period Tax	35	2.193	2.193
Other Current Assets	26	12.324.408	10.434.512
NON-CURRENT ASSETS		69.037.189	51.477.313
Other Receivables		20.818	29.696
- Other Receivables from Related Parties	10-37	-	-
- Other Receivables from 3rd Parties	10	20.818	29.696
Investment Property	16	7.200.000	6.659.000
Tangible Fixed Assets	17	42.631.846	33.486.482
Intangible Fixed Assets	18	9.717.796	3.792.900
Prepaid Expenses	13	1.850.083	1.124.787
Deferred Tax Assets	35	7.616.646	6.384.448
TOTAL ASSETS		293.363.849	228.674.940

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

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND IT'S SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2016
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

		Audited Current Period 31.12.2016	Audited Previous Period 31.12.2015
LIABILITIES	Notes		
SHORT-TERM LIABILITIES		158.989.222	111.129.914
Short-Term Borrowings	8	107.794.967	51.003.001
Current Part of Long Term Borrowings	8	5.067.140	3.597.900
Trade Payables		35.753.887	45.778.579
- Trade Payables to Related Parties	9-37	-	-
- Trade Payables to 3rd Parties	9	35.753.887	45.778.579
Employee Benefits	25	1.331.732	755.294
Other Payables		2.470.473	1.575.274
- Other Payables to Related Parties	10-37	-	-
- Other Payables to 3rd Parties	10	2.470.473	1.575.274
Deferred Income	13	5.477.549	7.020.798
Short-Term Provisions		1.093.474	1.399.068
- Short-Term Provisions related to Employee Benefits	25	711.803	562.124
- Other Short-Term Provisions	26	381.671	836.944
LONG-TERM LIABILITIES		62.199.402	54.865.376
Long-Term Borrowings	8	51.914.354	47.741.538
Other Payables			
- Other Payables to Related Parties	10,37	-	-
- Other Payables to 3rd Parties	10	1.168.998	-
Deferred Income			
Long-Term Provisions		3.498.780	2.609.471
- Long-Term Provisions related to Employee Benefits	25	3.498.780	2.609.471
Deferred Tax Liability	35	5.617.270	4.514.367
EQUITY CAPITAL		72.175.225	62.679.650
EQUITY CAPITAL OF PARENT COMPANY		72.152.654	62.661.740
Paid-in Capital	27	25.000.000	25.000.000
Reacquired Shares (-)	27	(1.161.298)	(38.827)
Other Comprehensive Income or Expenses not to be reclassified on Profit or Loss		10.754.345	9.737.768
- Revaluation and Measurement Income / (Loss)	27	11.259.003	9.976.331
- Identified Benefit Plans Reclassification Income / (Loss)	27	(504.658)	(238.563)
Restricted Reserves	27	3.150.869	2.061.453
The Merge Effect of Entities subject to Common Control	27	(1.759.039)	(1.759.039)
Retained Earnings	27	26.570.969	9.039.516
Net Profit / (Loss) of the Period	36	9.596.808	18.620.869
MINORITY SHARES		22.571	17.910
TOTAL LIABILITIES		293.363.849	228.674.940

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE PERIOD BETWEEN 01.01.2016 - 31.12.2016

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

	Notes	Audited	
		Current Period	Previous Period
		01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
ONGOING ACTIVITIES			
Revenue	28	144.583.597	310.672.906
Cost of Sales (-)	28	(88.147.132)	(236.779.450)
GROSS PROFIT / (LOSS)		56.436.465	73.893.456
General Administrative Expenses (-)	29	(13.136.245)	(16.636.072)
Marketing Expenses (-)	29	(15.009.793)	(14.905.336)
Research and Development Expenses (-)	29	(1.500.054)	(55.846)
Other Income from Operations	31	18.796.904	25.068.842
Other Expenses from Operations (-)	31	(8.378.637)	(21.617.286)
OPERATING PROFIT / (LOSS)		37.208.640	45.747.758
Income from Investing Activities	32	1.260.558	808.018
Expenses from Investing Activities (-)	32	(557.089)	(1.037.455)
OPERATING PROFIT BEFORE FINANCIAL INCOME AND EXPENSES		37.912.109	45.518.321
Financial Income	33	2.567.257	12.725.779
Financial Expenses (-)	33	(28.920.603)	(34.494.154)
PROFIT / (LOSS) BEFORE PROVISION FOR TAXES		11.558.763	23.749.946
Tax Income / (Expense) from Operating Activities		(1.957.291)	(5.120.090)
- Tax for Period	35	(2.196.848)	(7.056.176)
- Deferred Tax Income / (Expense)	35	239.557	1.936.086
NET PROFIT / (LOSS) FOR THE PERIOD		9.601.472	18.629.856
Distribution of Period Profit / (Loss)		9.601.472	18.629.856
- Non-Controlling Interests		4.664	8.987
- Parent Compant Shares	36	9.596.808	18.620.869
Earnings Per Share	36	0,38	0,74
- Earnings Per Share from Continuing Operations	36	0,38	0,74
- Diluated Earnings Per Share from Continuing Operations			
NET PROFIT / (LOSS)		9.601.472	18.629.856
Items not to be Reclassified in Profit or Loss		1.105.274	2.758.554
Increase / (Decrease) from Revaluation of Tangible Fixed Assets	21	1.348.583	2.810.450
Increase / (Decrease) from Revaluation of Intangible Fixed Assets			
Defined Benefit Plans Remeasurement Gains / (Losses)		(221.746)	89.208
Other Comprehensive Income Items not to be Reclassified as Other Profit or Loss			
Tax Income/(Loss) related to Other Comprehensive Income not to be Reclassified in Profit or Loss		(21.563)	(161.104)
- Current Tax (Expense) / Income			
- Deferred Tax (Expense) / Income		(21.563)	(161.104)
OTHER COMPREHENSOVE INCOME (AFTER TAX)		1.105.274	2.738.554
TOTAL COMPREHENSIVE INCOME		10.706.746	21.368.410
Distribution of Comprehensive Income :		10.706.747	21.368.410
- Non-Controlling Shares		3.821	9.436
- Parent Company Shares		10.702.926	21.358.974

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

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND IT'S SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD BETWEEN 01.01.2016 - 31.12.2016

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

			Other Comprehensive Profit / (Loss) Not to be Reclassified on Profit or Loss		Retained Earnings						
Notes	Paid-in Capital	Reaccured Shares	Identified Benefit Plans Reclassification Income / (Loss)	Restricted Reserves	Retained Profit / (Loss)	Net Period Profit / (Loss)	Increase from Revaluation of Tangible Fixed Assets	The Merge Effect of Entities subject to Common Control	Equity Holders of the Parent	Non Controlling Shares	Equity
27	25,000,000	(38,827)	(309,930)	2,108,305	(1,375,639)	9,311,684	7,309,143	(1,759,039)	40,245,697	3,116,498	43,362,195
	-	-	-	-	9,311,684	(9,311,684)	-	-	-	-	-
	-	-	71,367	-	-	18,620,869	2,730,860	-	21,423,096	9,436	21,432,532
	-	-	-	(46,852)	1,103,471	-	(63,672)	-	992,947	(3,108,024)	(2,115,077)
27	25,000,000	(38,827)	(238,563)	2,061,453	9,039,516	18,620,869	9,976,331	(1,759,039)	62,661,740	17,910	62,679,650
27	25,000,000	(38,827)	(238,563)	2,061,453	9,039,516	18,620,869	9,976,331	(1,759,039)	62,661,740	17,910	62,679,650
	-	-	-	-	18,620,869	(18,620,869)	-	-	-	-	-
	-	-	(266,095)	1,089,416	(1,089,416)	9,596,808	1,282,672	-	10,613,385	-	10,613,385
	-	(1,122,471)	-	-	-	-	-	-	(1,122,471)	4,661	(1,117,810)
27	25,000,000	(1,161,298)	(504,658)	3,150,869	26,570,969	9,596,808	11,259,003	(1,759,039)	72,152,654	22,571	72,175,225

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

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOW FOR THE PERIOD BETWEEN 01.01.2016 - 31.12.2016

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

	Notes	Audited	
		Current Period 01.01.2016 - 31.12.2016	Previous Period 01.01.2015 - 31.12.2015
A. CASH FLOWS FROM OPERATING ACTIVITIES		(63.942.932)	9.322.019
Net Profit / (Loss) for Period	36	9.601.472	18.629.856
Adjustments to Reconcile Net Profit / (Loss) :		(6.011.712)	5.887.101
- Depreciation and Amortization	17-18	2.033.390	1.575.666
- Impairments / Reversals	12	(6.269)	6.269
- Changes in Provisions	23	1.347.392	2.652.661
- Interest Income and Expense		(776.594)	1.442.349
- Unrealized Exchange Loss / (Gain)		(10.588.199)	(4.373.822)
- Fair Value (Loss) / Gain		16.089	(501.000)
- Gain/Loss from Fixed Assets Sales		5.187	(35.112)
- Profit / (Loss) Reconciliations		1.957.291	5.120.090
Changes in Working Capital		(65.211.324)	(11.318.945)
- Increases / (Decreases) in Inventories	12	(32.582.458)	18.308.501
- Increases / (Decreases) in Trade Receivables	9,37	(23.200.317)	(12.701.361)
- Increases / (Decreases) in Other Receivables	10,37	5.301.425	(2.673.554)
- Increases (Decreases) in Trade Payables	9,37	(8.855.694)	9.502.825
- Increases (Decreases) in Other Payables		895.199	42.574
- Other Increase / (Decreases) in Working Capital		(6.769.479)	(23.797.930)
Cash Flow from Operating Activities		(61.621.564)	13.198.012
Tax Payments / Returns		-	21.551
Other Cash Flows / Outflows		(2.321.368)	(3.897.544)
B. CASHFLOW PROVIDED BY INVESTING ACTIVITIES		(16.150.116)	6.618.497
Proceeds from Sale of Tangible and Intangible Assets	17,18	56.235	179.812
Cash Outflows due to Purchases of Tangible and Intangible Assets	17,18	(16.282.393)	6.173.544
Tax Payments / Returns		76.042	265.141
C. CASH FLOW PROVIDED BY FINANCING ACTIVITIES		69.273.711	(5.702.834)
Proceeds from Borrowings		205.717.913	166.519.354
Payments of Borrowings		(126.078.436)	(162.580.554)
Financial Lease Payments		(1.143.706)	(1.182.339)
Interest Received		-	701.703
Interest Payments		(10.298.251)	(9.160.998)
Other Cash Inflows / Outflows		1.076.191	-
NET INCREASE / (DECREASE) IN CASH EQUIVALENTS BEFORE FOREIGN CURRENCY CONVERSION ADJUSTMENTS		(10.819.338)	10.237.682
D. FOREIGN CURRENCY CONVERSION ADJUSTMENTS EFFECTS ON CASH AND CASH EQUIVALENTS			
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		(10.819.338)	10.237.682
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	6	16.981.050	6.743.368
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	6	6.161.712	16.981.050

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

CONTENTS

1. ORGANIZATION AND ACTIVITIES.....	2
2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS	3
3. BUSINESS COMBINATIONS	20
4. JOINT VENTURES.....	20
5. SEGMENT INFORMATION.....	20
6. CASH AND CASH EQUIVALENTS	23
7. FINANCIAL INVESTMENTS	23
8. FINANCIAL BORROWINGS	23
9. TRADE RECEIVABLES AND PAYABLES	26
10. OTHER RECEIVABLES AND PAYABLES	27
11. DERIVATIVE FINANCIAL INSTRUMENTS	28
12. INVENTORIES	28
13. PREPAID EXPENSES AND DEFERRED INCOME	29
14. CONSTRUCTION AGREEMENTS	29
15. INVESTMENTS ACCORDING TO EQUITY METHOD.....	29
16. INVESTMENT PROPERTIES.....	29
17. PROPERTY, PLANT AND EQUIPMENT.....	31
18. INTANGIBLE FIXED ASSETS	33
19. LEASING OPERATIONS.....	35
20. IMPAIRMENT OF ASSETS	35
21. GOVERNMENT GRANTS.....	35
22. BORROWING COST.....	36
23. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES	36
24. COMMITMENTS.....	38
25. EMPLOYEE BENEFITS.....	38
26. OTHER ASSETS AND LIABILITIES	39
27. CAPITAL, RESERVES AND OTHER EQUITY COMPONENTS.....	40
28. SALES AND COST OF SALES	42
29. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES AND RESEARCH AND DEVELOPMENT EXPENSES.....	43
30. EXPENSES BY NATURE	44
31. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES	45
32. INCOME AND EXPENSES FROM INVESTING OPERATIONS	45
33. FINANCIAL INCOME AND EXPENSES	46
34. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS.....	46
35. INCOME TAXES	46
36. EARNING PER SHARE	49
37. RELATED PARTY DISCLOSURES	49
38. KEY MANAGEMENT PERSONNEL	51
39. QUALITY AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS	51
40. FINANCIAL INSTRUMENTS (FAIR VALUE OF FINANCIAL RISK MANAGEMENT DISCLOSURES)	60
41. POST BALANCE SHEET EVENTS	62
42. DISCLOSURE OF OTHER MATTERS	62

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

1. ORGANIZATION AND ACTIVITIES

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

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

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

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

Group 's main activities are as follows :

Painting Work - Painting of vehicle equipment

Weld Work - Onboard equipment weld workshop

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

Company shares were offered to the public in 2010, as at 31 December 2016, 36,29 % (31.12.2015 : %36,29) of shares are trading Istanbul Stock Exchange Inc. (ISE).

As of 31 December 2016, the total number of people employed by the Group is 353. (31 December 2015: 349).

The ultimate parent of Group is managed by İsmail Katmerci. (Note 27).

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

Companies included in consolidation:

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

A. Basic Standards of Presentation

Summary of basis of presentation of the consolidated financial statements

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

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

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

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

Consolidated financial statements/TFRS in order to prepare, as appropriate, assets and liabilities, contingent assets and liabilities with relation to the explanatory notes to affect certain assumptions important and requires the use of accounting estimates. These estimates, management's current events and actions within the framework based on best estimates, the actual results are different than estimated to occur. Complex and a further comment that requires assumptions and estimates to have a significant effect on the financial statements can be found. 31 December 2016 as of the date of the financial statements the assumptions used in the preparation of important and there has been no change in the accounting estimates

There are not any seasonal and cyclical changes significantly affect the Group's operations

Financial statements , except for the revaluation of financial instruments and investment properties have been prepared on the historical cost basis.

Preparation of Financial Statements in Hyperinflationary Periods

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

A. Basic Standards of Presentation (continued)

Going Concern

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

Offsetting

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

Amendments in International Financial Reporting Standards (“IFRS”)

The Group has applied new standards, amendments and interpretations to existing IAS/ IFRS standards published by IASB and TASC/IFRIC that are effective as at 1 January 2016 and are relevant to the Group’s operations. There are no relevant amendments or interpretations for the Group which have been enforced as of 1 January 2016 and in year ends to 31 December 2016.

The new standards, amendments and interpretations which are effective for the financial statements as of 31 December 2016:

- Amendment to TFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation, effective from annual periods beginning on or after 1 January 2016. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.
- Amendments to TAS 16 ‘Property, plant and equipment’, and TAS 41, ‘Agriculture’, regarding bearer plants, effective from annual periods beginning on or after 1 January 2016. These amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. It has been decided that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of TAS 16, instead of TAS 41. The produce growing on bearer plants will remain within the scope of TAS 41.
- Amendment to TAS 16, 'Property, plant and equipment' and TAS 38, 'Intangible assets', on depreciation and amortisation, effective from annual periods beginning on or after 1 January 2016. In this amendment, it has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It is also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.
- TFRS 14 ‘Regulatory deferral accounts’, effective from annual periods beginning on or after 1 January 2016. TFRS 14, ‘Regulatory deferral accounts’ permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt TFRS. However, to enhance comparability with entities that already apply TFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.

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

A. Basic Standards of Presentation (continued)

Amendments in International Financial Reporting Standards ("IFRS") (continued)

– Amendments to TAS 27, 'Separate financial statements' on the equity method, effective from annual periods beginning on or after 1 January 2016. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

– Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures', effective from annual periods beginning on or after 1 January 2016. These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

– Annual improvements 2014, effective from annual periods beginning on or after 1 January 2016. These set of amendments impacts 4 standards:

- IFRS 5, Non-current assets held for sale and discontinued operations' regarding methods of disposal
- IFRS 7, Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts
- TAS 19, Employee benefits' regarding discount rates
- TAS 34, Interim financial reporting' regarding disclosure of information.

– TAS 1 "Presentation of Financial Statements"; effective from annual periods beginning on or after 1 January 2016. These amendments address to improve the presentation and disclosure of financial statements.

– IFRS 10 "Consolidated Financial Statements" and TAS 28 "Investments in Associates and Joint Ventures"; effective from annual periods beginning on or after 1 January 2016. These amendments clarify to address issues that have arisen in the context of applying the consolidation exception for investment entities.

Standards, amendments and interpretations effective after 31 December 2016:

– Amendments to TAS 7 'Statement of cash flows' on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

– Amendments TAS 12 'Income Taxes', effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarify certain other aspects of accounting for deferred tax assets.

– Amendments to IFRS 2, 'Share based payments' on clarifying how to account for certain types of share-based payment transactions, effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

A. Basic Standards of Presentation (continued)

Amendments in International Financial Reporting Standards ("IFRS") (continued)

– IFRS 15 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. Amendment to IFRS 15, 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

– IFRS 9 'Financial instruments', effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

– IFRS 16 'Leases', effective from annual periods beginning on or after 1 January 2019, This standard replaces the current guidance in IAS 17 and is a farreaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys

– Amendments to IFRS 4 'Insurance contracts' regarding the Implementation of IFRS 9 'Financial Instruments', effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:

- Give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and,
- Give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard, IAS 39.

– Amendment to IAS 40, 'Investment property' relating to transfers of investment property, effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

A. Basic Standards of Presentation (continued)

Amendments in International Financial Reporting Standards ("IFRS") (continued)

- Annual improvements 2014–2016, effective from annual periods beginning on or after 1 January 2018. These amendments impact 3 standards:

- TFRS 1, 'First-time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, TAS 19, and TFRS 10 effective 1 January 2018.
- TFRS 12, 'Disclosure of interests in other entities' regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.
- TAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value effective 1 January 2018.

– IFRIC 22, 'Foreign currency transactions and advance consideration', effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice. This standard is not expected to have a significant effect on the financial position and performance of the Group.

Consolidation Principles

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 all entities over which the Group has power to govern the financial and operating policies so as to benefit from its activities. In case of Group has income from company because of it's relation or rights-holder of income also has power to effect income than Group is controlling the company.

Subsidiaries' financial statements from the date control commences until the date that end have been included in the consolidated financial statements. Accounting policies of subsidiaries, if necessary, to ensure compliance with policies agreed by the Group has been changed.

As of December 31, 2016 direct and indirect participation rate of subsidiaries subject to consolidation are as follows;

<u>Subsidiaries</u>	<u>Main Activity</u>	<u>Functional Currency</u>	<u>Establishmt & Operation Place</u>	<u>Shareholding Ratio (%)</u>	
				<u>31.12.2016</u>	<u>31.12.2015</u>
Katmerciler Profil San. ve Tic. A.Ş.	Painting Works	Turkish Lira	Turkey	100,00	100,00
Isipan Otomotiv ve Üst Ekipman Metal ve Makine San. ve Tic. A.Ş.	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

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

B. Declaration of Conformity to TAS

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

According to Article 5 of the Communiqué, consolidated financial statements are prepared in accordance with the Turkish Accounting Standards issued by Public Oversight Accounting and Auditing Standards Authority (“POAASA”). TAS contains Turkish Accounting Standards, Turkish Financial Reporting Standards (“TFRS”) and its addendum and interpretations (“IFRIC”).

The Group’s consolidated financial statements as at 31 December 2016 is confirmed and signed by Board of Directors on 13 March 2017. General Assembly of the Group has the right to readjust financial statements prepared in accordance with legal regulations of legal institutions.

C. Changes in Accounting Policies

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

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

D. Changes in Accounting Estimates and Errors

Changes in accounting estimates, if only for one period, changes are made in the current period, if they relate to future periods, as well as in the period of change in future periods, are applied prospectively. Significant accounting estimates used in current period is coherent with significant accounting estimates used to prepare 31 December 2015 dated consolidated financial statements.

E. Summary of Significant Accounting Policies

Revenue and Income

Revenue measures from fair value of collected or collectible amounts. Possible customer returns, discounts and provisions deducts from this amount.

Sale of Goods

Revenue from sale of goods books after it has agreed upon the following:

- Transferring the significant risks and rewards to the buyer,
- Associated with the ownership of the Group and ongoing managerial involvement 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, and reliable measurement of costs arising from the transaction, or to be incurred.

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

E. Summary of Significant Accounting Policies (continued)

Rental Income

Rental income from properties books with linear method during agreement time.

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 valued at the lower of cost and net realizable value. The cost of inventories of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition involves. The costs of conversion of inventories, such as direct labor costs related to production costs. These costs are also incurred in converting raw materials and finished goods material in a systematic allocation of fixed and variable production overheads that include the amounts.

Net realizable value is the estimated selling price in the ordinary course of business, the estimated costs of completion and the estimated costs necessary to make the sale shall be obtained by deducting total. Stocks in the financial statements, use or sales can not be tracked at a price higher than the amount expected to be achieved as a result. The net realizable value of inventories is less than cost, inventories are reduced to net realizable value and are recognized as an expense in the income statement in the year when the impairment. That caused inventories to be written down to net realizable value before conditions or evidence of an increase in net realizable value because of changed economic circumstances cases, impairment loss is canceled. The previously recognized impairment loss is limited to the amount of the canceled amount (Note 12).

Group uses “FIFO” method for calculating cost of inventories.

Property, Plant And Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment in value.

Assets to be used for administrative purposes, or used in the production of goods and services and are in the course of construction are carried at cost, less any recognized impairment loss. Legal fees are included in the cost of the property, plant and equipment. For assets that need considerable time to be ready for sale or use, borrowing costs are capitalized in accordance with the Group’s accounting policy. As it is for the other fixed assets, such assets are depreciated when the assets are ready for their intended use.

Cost amounts of property, plant and equipment assets excluding land and construction in progress are subject to amortization by using the straight-line method in accordance with their expected useful life. There is no depreciation allocated for lands due to indefinite useful lives. Expected useful life, residual value and amortisation method are evaluated every year for the probable effects of changes arising in the expectations and are accounted for prospectively (Note 17).

Leased assets are subject to similar amortization procedures, as with the other tangible assets on the shorter of the related leasing period and economic life of the asset.

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

E. Summary of Significant Accounting Policies (continued)

Revaluation Model

Tangible fixed assets are stated at revalued amount of land and buildings are reported. The fair value of buildings is determined by independent valuation company licensed by the CMB. Revalued amount, the date of the revaluation at fair value, any subsequent accumulated depreciation and subsequent accumulated impairment losses are through. The corresponding increases in value are reported in equity is revalued.

If the carrying amount of an asset is increased after revaluation, the increase is recognized in other comprehensive income and directly in equity revaluation account under the name of the group are collected. However, a revaluation, the same asset previously associated with the revaluation gain or loss is recognized in income largely reversed reception.

If the carrying amount of an asset is low as a result of revaluation, the decrease is recognized as an expense. However, the decrease in other comprehensive income in the asset revaluation surplus in respect of the extent of any credit balance recognized in scope. Recognized in other comprehensive income and the decrease reduces the amount accumulated in equity under the heading of revaluation surplus (Note 17).

The amount recorded to other comprehensive income decreases revaluation surplus in the equity (Note 28).

Depreciation of revalued buildings is recognized in the statement of income. Sale or retirement of a revalued property, the remaining balance in the revaluation reserve is transferred directly to retained earnings. No release of off-balance sheet assets, are not transferred from revaluation reserve to retained earnings.

Rental or administrative purposes, or for purposes not yet determined the course of construction assets are carried at cost less any recognized impairment loss. The cost of legal fees are also included. Such assets, the depreciation method used for other fixed assets, as well as when they are ready for use are depreciated.

Machinery and equipment, at cost less accumulated depreciation and accumulated impairment losses, on the same basis.

Cost Method

Tangible fixed assets reported at cost less accumulated depreciation and accumulated impairment losses, on the same basis.

Rental or administrative purposes, or for purposes not yet determined the course of construction assets are carried at cost less any recognized impairment loss. The cost of legal fees are also included. Such assets, the depreciation method used for other fixed assets, as well as when they are ready for use are depreciated.

Land and construction in progress, except for the cost of tangible fixed assets to their estimated useful lives are amortized using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year for the possible effects of changes in estimates if a change in estimate being accounted for on a prospective basis.

Disposal of tangible fixed assets of the asset, or a gain or loss arising on the difference between the sales proceeds and the carrying amount of the asset is included in the income statement is determined.

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

E. Summary of Significant Accounting Policies (continued)

Intangible Fixed Assets

Intangible assets acquired

Intangible assets acquired separately are carried at cost, less accumulated amortization and any accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. Estimated useful life and amortization method are reviewed at the end of each year and the effect of any change in the estimate is accounted for on a prospective basis.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Derecognition of intangible assets

An intangible asset through use or sale of disposed of or when no future economic benefits are expected from the case of statement of financial position (balance sheet) is disabled. An intangible asset statement of financial position (balance sheet) disconnection of the profit or loss, if any, to the disposal of assets is calculated as the difference between the net book value of collections. This difference is related assets statement of financial position (balance sheet) is recognized in profit or loss when taken out.

Investment Property

Investment property, rental income and / or capital appreciation is held in order to obtain the cost of the initial values and are measured at cost, including transaction. Subsequent to initial recognition, investment property, which reflects market conditions at the reporting date are measured at fair value.

Investment properties are sold or become unusable and the sale in the event of any future economic benefit is derecognized. The retirement or disposal of an investment property and the profit / loss is included in the income statement in the period.

Fair Value Method

Group operations after the initial recognition , the fair value method chosen and the fair value of investment property was measured by the method (Note 16).

The fair value of investment property gain or loss arising from the change in profit or loss in the period they occur are included.

Transfers , there is a change in use of the investment property is made . Fair value based on the monitored investment property , the owner, used by real estate class made a transfer , the transfer made after accounting treatment deemed cost at the aforementioned property's use shape change at the dates the fair value is . The owner used by a property's fair value basis to display an investment property if it converts , business , change in use occurred up to the date "Tangible Assets" in the accounting policy applies .

Real estate is located in the Group's own use of tangible fixed assets have been reclassified .

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

E. Summary of Significant Accounting Policies (continued)

Impairment of Assets

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

Leases

Financial leases

- Group - as a lessee

The Group substantially all the risks and rewards of ownership of tangible assets taken on lease , are classified as finance leases . Financial leases are subject to finance lease at the inception of the lease at the fair value of fixed assets at the lower of the present value basis are included in tangible assets by taking . Arising from lease financing costs over the lease term so as to produce a constant periodic rate is spread over the lease term . In addition, leased fixed assets based on estimated useful lives are amortized through . A reduction in value of fixed assets subject to finance lease impairment provision is recognized if detected . Finance lease liabilities and related interest expense and foreign exchange differences are recognized in profit or loss statement . Lease payments from finance lease liabilities are deducted .

Operating leases

- Group - as a lessee

A significant portion of the risks and rewards of ownership are retained by the lessor that leases , are classified as operating leases . Under operating leases (net of any incentives received from the lessor after) the payments made , straight-line basis over the lease term on the profit or loss is recognized as an expense in the statement .

- Group - as lessor

In an operating lease , the leased assets , property, land and investment properties held , except to the consolidated statement of financial position of tangible assets are classified and the resulting rental income during the leasing period in equal amounts in the consolidated profit or loss reflected in the statement . Straight-line basis over the lease term rental income in the consolidated profit or loss are recognized in the statement . His capacity as lessor if the lease agreements become a party to the main building where the Group operates and other non-group companies of investment property leased as office and warehouse are caused .

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale.

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

E. Summary of Significant Accounting Policies (continued)

Related Parties

Related parties of the Group's shareholding, contractual rights, the opposite side of the family relationship or otherwise, directly or indirectly, control or significantly influence the team includes a. The accompanying consolidated financial statements of the Group companies are owned by shareholders and the shareholders of which are known to be associated with key management personnel and other companies are defined as related parties.

Presence of one of the following criteria, are considered related party to the Group:

i) use directly, or indirectly through one or more intermediaries:

- The Group controls, or is controlled by the Group

- Is under common control with the Group (parent, subsidiaries and fellow subsidiaries, including the same);

- Has an interest in the Group that gives it significant influence over, or has joint control over the Group;

ii) the party is an associate of the Group;

iii) the party is a joint venture of the Group is a venturer;

iv) the party is a member of the key management personnel of the Group or its parent;

v) the (i) or (iv) above, any individual is a close family member.

vi) the entity that is controlled, jointly controlled or significantly influenced by, or (iv) or (v) directly or indirectly, any individual referred to in Articles important to have an entity that is entitled to vote, or

vii) the party is an entity that is a related party of the company or for the benefit of employees of the entity must have plans.

Related party transactions between related parties, resources, services or obligations, regardless of whether a price is charged transfer (Note 37).

Financial Instruments

Financial assets

Financial assets at fair value through profit or loss of the ones which are classified as financial assets recognized at fair value and the fair market value of the total price of the acquisition is recognized directly attributable transaction costs. The investment within the timeframe established by the market concerned is under a contract require delivery of the related assets as a result of the purchase or sale of financial assets, are recognized or derecognized on trade date.

"Financial assets at fair value through profit or loss Financial assets", "held to maturity investments", "available-for-sale financial assets" and "loans and receivables". Classification of financial assets depending on the purpose and specifications, is determined at initial recognition.

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

E. Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

The effective interest method

The effective interest method of calculating the amortized cost of a financial asset and of allocating the interest income related to the Respective period. The effective interest rate for the expected life of the financial instrument or, where Appropriate, a shorter period of time, the sum of the estimated cash flow, net present value of the related financial assets.

Financial assets at fair value through profit or loss on financial assets, except calculated by using the effective interest method.

Loans and receivables

Those receivables are financial assets with fixed or determinable payments that are quoted in an active market are classified under loans and receivables. Loans and receivables are measured at amortized cost using effective interest method less any impairment.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognized in consolidated income statement.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available-for-sale equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Cash and cash equivalents

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

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

E. Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Liabilities

Financial liabilities and equity instruments issued by the Group is classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The accounting policies adopted for specific financial liabilities and equity instruments are set out below. Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Trade payables

Trade payables are payments to be made arising from the purchase of goods and services from suppliers within the ordinary course of business. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method (Note 9).

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

E. Summary of Significant Accounting Policies (continued)

Effects of Changes in Foreign Exchange

The individual financial statements of each Group entity operates in the currency of the primary economic environment (functional currency) are presented . Each company's financial condition and results of operations of the Company , which is the functional currency and the presentation currency for the consolidated financial statements are expressed in TL .

During the preparation of the financial statements of the individual entities , denominated in foreign currencies (currencies other than TL) from the transactions , foreign exchange rates prevailing at the transaction date are recorded at . In the balance sheet foreign currency denominated monetary assets and liabilities using the exchange rates prevailing at the balance sheet date are translated into New Turkish Lira . Followed by the fair value of non-monetary items denominated in foreign currencies which are those recorded at fair value as determined by rates prevailing on the date are retranslated . Measured in terms of historical cost in a foreign currency non-monetary items , are not retranslated .

Exchange differences, except as specified below , are recognized in profit or loss in the period in which they occur:

- Assets under construction for future productive use, which are associated with and on foreign currency borrowings are regarded as an adjustment to interest costs and the cost of such assets are included in the exchange rate differences ,

- Risks arising from foreign currency (providing financial protection against risks related to the accounting policies described below) to provide financial protection against exchange differences arising from the operation ,

In overseas activities of the net investment , forming part accounted in translation reserves and net investment in sales profit or loss associated with the unpaid intention or unlikely overseas operations arising from the monetary receivables and payables arising from exchange rate differences .

Earnings Per Share

Per share earnings / loss amount , profit / loss , from continuing operations per share gain / loss amount , however, from continuing operations profit / loss of the Company's shares in the period time-weighted average share amounts are calculated by dividing .

In Turkey, companies , their shareholders from retained earnings are distributed to the " bonus shares " way can increase . This type of "bonus share " distributions in the computation of earnings per share , are assessed as issued shares . Accordingly, the weighted average number of shares used in these calculations , it comes at retrospective effect to the issuances of shares is taken into consideration .

The calculation of earnings per share , preferred share will require correction or share dilution effect , there is the potential (Note 36).

Events after the Reporting Period

Events after the reporting period , the balance date and the date of approval of the financial statements to be published , in favor or against the Group refers to events that occur . According to perform smoothing , two types of situations can be identified:

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

E. Summary of Significant Accounting Policies (continued)

Events after the Reporting Period (continued)

- Events that require adjustment after the reporting period , the balance sheet date of the relevant facts showing there is evidence that the conditions of the situation ,
- Related events that occur after the reporting period showing improvements (non-adjusting events after the reporting period)

The accompanying financial statements of the Group in the reporting period, adjusting subsequent events have been registered and non-adjusting events after the reporting period are shown in the notes (Note 40).

Provisions, Contingent Liabilities and Contingent Assets

Provisions

There is a present legal or constructive obligation as a result of past events, and resources embodying economic benefits to settle the obligation and it is probable that they kept the company is expected to have a safe manner in the event of liability should be recognized in the consolidated financial statements. The provisions of the expenditure required to settle the obligation at the balance sheet date, with the most realistic estimates calculated by the Company's management and are discounted to present value where the effect is material.

Contingent Liabilities

Obligations under this group, within the control of the entity arising from past events, and the presence of one or more uncertain future events on the realization of the non-existence will be confirmed as the assessed liabilities. Contingent liabilities are not included in the consolidated financial statements. Because, to settle the obligation, have the possibility of an outflow of resources embodying economic benefits or the amount of obligation can not be measured with sufficient reliability. Too far from the entity of resources embodying economic benefits likely to come out, unless the notes to the consolidated financial statements show that conditional obligations (Note 23).

Contingent Assets

The Group within the control of the entity arising from past events, and the presence of one or more uncertain events, which will be confirmed by the realization of assets, is considered as a contingent asset. If an inflow of resources embodying economic benefits is not certain contingent assets described in the notes to the consolidated financial statements.

Or all of the economic benefits required to settle a provision are expected to be part of the cases, which shall be collected by third parties, it is virtually certain that reimbursement will be received and the amount of the event can be measured reliably, are recognized and reported as an asset.

Warranties

The provision for warranty costs, to meet the Group's obligations are estimated by management based on the most appropriate expenditures , are recognized on the sale of related products.

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

E. Summary of Significant Accounting Policies (continued)

Financial Information Segment Reporting

Reportable segment information required to be disclosed is a business segment or geographical segment . Industrial segments of a particular commodity or service or group of related goods or services , or to provide benefits in terms of risk and different from other parts of the Group are the features section . Geographical segments provide products or services within a particular economic environment the Group's risks and the terms in Xfay operating in other economic environments have different characteristics from the other sections are the sections .

The Group's main activities in Turkey are painting work , welding and onboard vehicle equipment manufacturing in the areas in which financial information for the segmental reporting that performs the operations of the companies restructured by the painting work , welding and vehicle equipment manufacturing under the headings were reported. (Note 5)

Government Grants and Incentives

Government grants, donations will be received and the Group is obliged to comply with a reasonable assurance that it meets the conditions is recognized at the fair value (Note 21).

Government grants relating to costs, costs will meet their match in a consistent manner throughout the period is recognized as income.

Government grants relating to tangible fixed assets, non-current liabilities as deferred government grants and are classified under the straight-line basis over their useful lives are recorded as receivables in the statement of profit or loss.

Taxation and Deferred Income Taxes

The tax expense for the year comprises current and deferred tax. Tax is recognized in the statement of profit or loss, except to the extent that it relates to items recognized directly in equity. In such case, the tax is also recognized in shareholders' equity. (Note 35).

The current income tax charge is calculated in accordance with the tax laws enacted or substantively enacted at the balance sheet date in the countries where the subsidiaries of the Company operate.

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

The principal temporary differences arise from the carrying values of property, plant and equipment and available-for-sale-investments and their historical costs, various provisions and unused tax allowances and exemptions.

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority.

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

E. Summary of Significant Accounting Policies (continued)

Employment Termination Benefits

Employment termination benefits, as required by the Turkish Labor Law and the laws applicable in the countries where the subsidiaries operate, represent the estimated present value of the total reserve of the future probable obligation of the Company arising in case of the retirement of the employees, termination of employment without due cause, call for military service, be retired or death upon the completion of a minimum one year service. Provision which is allocated by using defined benefit pension's current value is calculated by using prescribed liability method. Actuarial gains and losses are recognized as other comprehensive income or loss in shareholders' equity in the period in which they arise (Note 25).

Reporting Of Cash Flows

The Group's net assets, financial structure, and the ability to affect the amounts and timing of cash flows, financial statement users to provide information about the cash flow statement holds. Cash flow statement, cash flows from operating, investing and financing activities are classified. Cash flows from operating activities, cash flows from operating activities of the Group. From investing activities Cash flows from investing activities (fixed asset investments and financial investments) and the cash flows. Cash flows related to financing activities, the resources used in financing activities of the Group and repayments. Cash and cash equivalents include cash, bank deposits and investments that are readily convertible into cash at short-term, highly liquid investments with original maturities of three months or less.

Capital and Dividends

Ordinary shares, are classified as equity. Dividends payable are declared as an element of profit in the period are reflected as liabilities in the financial statements.

F. Significant Accounting Estimates

The preparation of consolidated financial statements requires management to affect the reported amounts of assets and liabilities in the balance sheet at the date of the possible liabilities and commitments and the amounts of revenue and expenses during the reporting period required to make certain assumptions and estimates. These estimates and assumptions are based on management's best knowledge of current events and transactions despite the actual results may vary. Estimates are revised regularly and any necessary corrections are made and are reflected in the income statement in the periods. Critical judgments in applying the Group's accounting policies Summary of Significant Accounting Policies in the process of applying the accounting policies specified in management, with a significant impact on the amounts recognized in the financial statements (other than the estimates discussed below) made the following comments:

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

- a) A deferred tax asset is recognized only to the extent that it is probable that a tax benefit will be realized in the future. If it is probable that a tax benefit will be realized, a deferred tax asset is recognized on unused tax losses, unused tax credits and other deductible temporary differences. As at 31 December 2015 With the expectation to recover certain part of its tax losses carried forward, the Group has recognized deferred tax assets on statutory tax losses available for offsetting with future statutory taxable profits.
- b) Severance pay provision calculates under actuarial estimations (discount rate, future salary increases and employe leave rate) .

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

F. Significant Accounting Estimates (continued)

- a) Doubtful receivable provisions reflects future loss of possible uncollectible receivable amounts as at balance sheet date. While the determination impairment of receivables, past performans of third party receivables, market credibilities and performanses from balance sheet date until the confirmation of financial statements taking into consadiration.
- b) Inventory impairment calculates by using list price after discounts. Sales price imponderable inventories evaluated by determining of waiting time of inventories, physical conditions and technical staff opinion. Provision made if net realizable value under the cost value.
- c) While the determination provision for lawsuits, Company's legal advisor's and Company Management's opinions regarding possibility of lose lawsuits and liabilities in case of lose took into consodiration. Company Managament determine lawsuit provision according to best estimations.
- d) Company Management make significant estimations regarding determination economic life of tangible and intangible assets.

3. BUSINESS COMBINATIONS

None (31.12.2015: None).

4. JOINT VENTURES

None (31.12.2015: None).

5. SEGMENT INFORMATION

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

"On-board equipment production"

Firefighters, environmental tool, vehicle, vehicles for the defense industry and the construction industry is the manufacture and sale of equipment for the aerial.

"Painting Works"

Painting of vehicles and vehicle-mounted equipment is made of craftsmanship.

"Weld Works"

Truck-mounted equipment is made of the source of labor.

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

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

5. SEGMENT INFORMATION (continued)

31.12.2016	Onboard Vehicle Equipment	Weld Works	Painting Work	Consolidation Adjustments	Total
Net Non-Group Sales	144.526.500	34.720	22.377	-	144.583.597
Net In-Group Sales	23.125.049	1.361.140	1.451.379	(25.937.568)	-
Net Sales Total	167.651.549	1.395.860	1.473.756	(25.937.568)	144.583.597
Cost of Sales (-)	(113.216.551)	(875.321)	(1.036.281)	26.981.021	(88.147.132)
Gross Profit	54.434.998	520.539	437.475	1.043.453	56.436.465
Research and Development Expenses (-)	(1.500.054)	-	-	-	(1.500.054)
Marketing, Selling and Distribution Expense (-)	(15.108.118)	-	-	98.325	(15.009.793)
General Administrations Expense (-)	(12.719.715)	(385.570)	(176.075)	145.115	(13.136.245)
Other Operating Income	19.777.208	52.388	665.299	(1.697.991)	18.796.904
Other Operating Expenses (-)	(8.377.403)	(328)	(487)	(419)	(8.378.637)
Operating Profit/Loss	36.506.916	187.029	926.212	(411.517)	37.208.640
Income from Investment Operation	1.260.556	-	-	2	1.260.558
Expense from Investment Operation (-)	(557.089)	-	-	-	(557.089)
OPERATING PROFIT (LOSS) BEFORE FINANCIAL INCOME AND EXPENSES	37.210.383	187.029	926.212	(411.515)	37.912.109
Financial Income	2.826.087	1.101	-	(259.931)	2.567.257
Financial Expense (-)	(30.036.645)	(5.724)	(13)	1.121.779	(28.920.603)
PRE-TAX PROFIT (LOSS) FROM ONGOING OPERATIONS	9.999.825	182.406	926.199	450.333	11.558.763
Tax Income / (Expense) from Operating Activities					
-Tax Income / (Expense)	(1.734.086)	(87.706)	(375.056)	-	(2.196.848)
-Deferred Tax Income / (Expense)	47.025	12.921	23.806	155.805	239.557
NET PROFIT / (LOSS)	8.312.764	107.621	574.949	606.138	9.601.472
Investment Expenditures					
Tangible Fixed Assets	9.467.594	-	-	-	9.467.594
Intangible Fixed Assets	6.814.799	-	-	-	6.814.799
Amortization,	1.259.756	22.943	134.382		1.417.081
Amortization and Depletion	695.782	-	-	(79.473)	616.309
Earnings Before Interest Taxes Depreciation And Amortization (Ebitda)	-	-	-	-	-
Total Investment Expenditures	16.282.393	-	-	-	16.282.393
<u>Other Information</u>					
- Total Assets	299.068.619	1.239.895	17.001.910	(23.946.576)	293.363.849
- Total Liabilities	299.068.619	1.239.895	17.001.910	(23.946.576)	293.363.849

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

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

5. SEGMENT INFORMATION (continued)

31.12.2015	Onboard Vehicle Equipment	Weld Works	Painting Work	Consolidation Adjustments	Total
Net Non-Group Sales	310.618.491	36.270	18.145	-	310.672.906
Net In-Group Sales	35.973.034	1.555.810	1.296.600	(38.825.444)	-
Net Sales Total	346.591.525	1.592.080	1.314.745	(38.825.444)	310.672.906
Cost of Sales (-)	(274.251.783)	(947.246)	(1.122.628)	39.542.207	(236.779.450)
Gross Profit	72.339.742	644.834	192.117	716.764	73.893.456
Research and Development Expenses (-)	(55.846)	-	-	-	(55.846)
Marketing, Selling and Distribution Expense (-)	(14.949.043)	-	-	43.707	(14.905.336)
General Administrations Expense (-)	(16.132.484)	(468.819)	(174.824)	140.055	(16.636.072)
Other Operating Income	26.080.302	117.354	897.576	(2.026.391)	25.068.842
Other Operating Expenses (-)	(21.585.065)	(31.695)	(524)	(2)	(21.617.286)
Operating Profit/Loss	45.697.606	261.674	914.345	(1.125.867)	45.747.758
Income from Investment Operation	801.253	-	6.765	-	808.018
Expense from Investment Operation (-)	(1.037.455)	-	-	-	(1.037.455)
OPERATING PROFIT (LOSS) BEFORE FINANCIAL INCOME AND EXPENSES	45.461.403	261.674	921.110	(1.125.867)	45.518.321
Financial Income	16.634.877	511	1	(3.909.610)	12.725.779
Financial Expense (-)	(39.153.251)	(1.785)	(131)	4.661.013	(34.494.154)
PRE-TAX PROFIT (LOSS) FROM ONGOING OPERATIONS	22.943.029	260.400	920.980	(374.464)	23.749.946
Tax Income / (Expense) from Operating Activities					
-Tax Income / (Expense)	(6.783.462)	(65.556)	(207.158)	-	(7.056.176)
-Deferred Tax Income / (Expense)	1.897.304	12.558	26.224	-	1.936.086
NET PROFIT / (LOSS)	18.056.871	207.402	740.046	(374.464)	18.629.856
Investment Expenditures					
Tangible Fixed Assets	4.185.997	147.458	-	611	4.334.066
Intangible Fixed Assets	1.982.103	-	-	(142.625)	1.839.478
Amortization,	986.783	502	134.492	-	1.121.778
Amortization and Depletion	530.096	-	-	(76.206)	453.889
Earnings Before Interest Taxes Depreciation And Amortization (Ebitda)					-
Total Investment Expenditures	6.168.100	147.458	-	(142.014)	6.173.544
Other Information					
- Total Assets	235.719.396	1.133.187	14.881.885	(23.059.528)	228.674.940
- Total Liabilities	235.719.396	1.133.187	14.881.885	(23.059.528)	228.674.940

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

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

6. CASH AND CASH EQUIVALENTS

	<u>31.12.2016</u>	<u>31.12.2015</u>
Cash	18.988	31.476
Banks	6.142.724	16.949.574
- Demand Deposits	6.142.724	16.949.574
TL	4.475.750	8.662.881
USD	1.478.273	1.096.060
EUR	188.701	7.190.633
Total	6.161.712	16.981.050

The credit risk analysis of cash and cash equivalents are stated in Note 39.

7. FINANCIAL INVESTMENTS

	<u>31.12.2016</u>		<u>31.12.2015</u>	
Financial Assets Available for Sale	Nominal Value	Book Value	Nominal Value	Book Value
Azimet GBK-Eurobond Debt Instrument Fund	275	197	-	-
Azimet GMA-Multiple Asset Flexible Debt Instrument Fund	700.000	742.564	-	-
Azimet GTF- Primary Debt Instrument Fund	100.000	121.248	-	-
Azimet GBL- Money market Debt Instrument Fund	200.000	212.182	-	-
Total	1.000.275	1.076.191	-	-

8. FINANCIAL BORROWINGS

	<u>31.12.2016</u>	<u>31.12.2015</u>
a) Bank Loans	107.197.223	75.738.417
b) Principal Repayments of Long Term Loans	5.067.140	3.597.900
c) Issued Bond	49.415.666	20.647.602
d) Financial Lease Obligations	3.096.432	2.358.520
Total	164.776.461	102.342.439

31.12.2016**a) Bank Loans**

	<u>Average Interest Rate (%)</u>	<u>Short-Term</u>	<u>Short-Term Portion of Long-Term Loans</u>	<u>Long-Term</u>
Currency				
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
Total		57.365.824	5.067.140	49.831.399

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

8. FINANCIAL BORROWINGS (continued)

a) Bank Loans (continued)

31.12.2015

<u>Currency</u>	<u>Average Interest Rate (%)</u>	<u>Short-Term</u>	<u>Short-Term Portion of Long-Term Loans</u>	<u>Long-Term</u>
TL	9,50-14,75	6.360.075	2.594.236	25.342.543
USD	3,25-4,50	2.181.161	227.062	2.498.805
EUR	3,10 -4,50	21.024.699	776.602	18.331.134
Total		29.565.935	3.597.900	46.172.482
			<u>31.12.2016</u>	<u>31.12.2015</u>
Payable within 1 year			57.365.824	29.565.935
Payable within 1 - 2 years			13.365.453	15.390.827
Payable within 2 - 3 years			24.889.294	13.806.443
Payable within 3 - 4 years			11.576.652	16.975.212
Total			107.197.223	75.738.417

The fair value of short-and long-term debts are equal to book value because the effect of discounting is immaterial. As of the reporting date, bank loans secured over EUR 600,000, USD 5.000.000 and TL 45.6 million –values of buildings (31.12.2015: EUR 600.000, USD 5.000.000 and TL 15.600.000).

b) Principal Repayments of Long Term Loans

<u>Currency</u>	<u>Avarage Interest Rate (%)</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
TL	11,25	1.952.071	2.594.236
USD	3,25-4,50	1.714.285	227.062
EUR	4,50	1.400.784	776.602
Total		5.067.140	3.597.900

c) Issued Bonds

31.12.2016

<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
Total			48.000.000	49.415.666

31.12.2015

<u>Currency</u>	<u>Nominal Interest Rate</u>	<u>Term</u>	<u>Nominal Value</u>	<u>Book Value</u>
TL	2,67 (*)	01.02.2016	20.000.000	20.647.602

(*) The amount of accrued interest is amounting to TL 1.415.666 as of 31.12.2016 (31.12.2015 : TL 647.602).

(*) Bond are paid in quarterly and principal will be paid in date of maturity. Bond interest rate is equal to total amount of coupon interests.

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

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

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

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

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

<u>Net Value</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
Machinery, Equipment and Installations (net)	3.096.436	2.358.520

- The sum of the minimum lease payments and present value

	<u>TL</u>	<u>TL</u>	<u>TL</u>	<u>TL</u>
<u>31.12.2016</u>		Between	More than	
	Less than 1 Year	1-5 Years	5 Years	Total
Amount of Minimum Lease Payments				
TL Denominated Finance Leases	147.068	468.417		615.485
EUR Denominated Finance Leases	911.193	1.632.204		2.543.397
USD Denominated Finance Leases	99.472	208.842		308.314
Total	1.157.733	2.309.463		3.467.196
Present Value of Payments				
TL Denominated Finance Leases	109.167	351.197		460.364
EUR Denominated Finance Leases	816.137	1.535.290		2.351.427
USD Denominated Finance Leases	86.173	196.468		282.641
Total	1.013.477	2.082.955		3.096.432
	<u>TL</u>	<u>TL</u>	<u>TL</u>	<u>TL</u>
<u>31.12.2015</u>		Between	More than	
	Less than 1 Year	1-5 Years	5 Years	Total
Amount of Minimum Lease Payments				
TL Denominated Finance Leases	900.712	1.687.323		2.588.035
Total	900.712	1.687.323		2.588.035
Present Value of Payments				
TL Denominated Finance Leases	789.461	1.569.059		2.358.520
Total	789.461	1.569.059		2.358.520

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

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

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

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

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

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

<u>Short-Term Trade Receivables</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
Customers(*)	87.407.337	64.892.194
Postdated Checks (*)	11.472.420	11.044.373
Less: Unaccrued Finance Income	(167.223)	(192.591)
Doubful Trade Receivables (**)	2.911.976	2.721.528
Less: Provision for Doubful Trade Receivables	(2.911.976)	(2.721.528)
Sub Total	98.712.534	75.743.976
-Related Parties (Note 37)	687.628	455.869
Total	99.400.162	76.199.845

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

<u>Customers, Notes Receivables and Postdated Check</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
Maturity between 1 – 3 Months	62.568.102	49.162.090
Maturity between 3 – 6 Months	25.343.963	23.288.306
Maturity between 6 – 9 Months	11.655.320	3.942.040
Total	99.567.385	76.392.436

As of 31.12.2016, the weighted average of interest rate respectively 9,12 % and 1,12 % and -0,28 % used to calculate unearned finance income for short-term trade receivables in terms of TL, USD and EUR and average maturity of receivables is 222 days. (31.12.2015: respectively %10,28- %0,71- % -0,09, 82 days)

As of 31 December 2016, amount of TL 2.911.976 (31.12.2015: TL 2.721.528) trade receivables are doubtful receivables. TL 320.409 (2015: 1.719.588 TL) provision made for the period between 01 January-31 December 2016. Doubtful receivables consist of uncollected amount of sales.

(**) Group's Doubtful Trade Receivables details are as follows;

<u>Doubful Trade Receivables</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
Opening	2.721.528	1.149.127
Period Expense	320.409	1.719.588
Less: Cancelled within the Period	(129.961)	(147.187)
Closing	2.911.976	2.721.528

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

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

9. TRADE RECEIVABLES / PAYABLES (continued)**Long-Term Trade Receivables**

None (31.12.2015: None).

b) Trade Payables:

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

<u>Short-Term Trade Payables</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
Suppliers (*)	14.321.073	7.909.210
Notes Payables (*)	14.948.536	30.210.459
Less: Unaccrued Finance Expense	(156.620)	(300.557)
Other Trade Payables	6.640.898	7.959.467
Total	35.753.887	45.778.579

(*) Suppliers and Notes Payables maturity details are as follows.

<u>Suppliers and Notes Payables</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
Maturity between 0 - 6 Months	24.410.998	31.802.063
Maturity between 6 - 9 Months	4.858.611	6.317.606
Total	29.269.609	38.119.669

As of 31.12.2016, the weighted average of interest rates are % 9,12, % 1,12 and %-0,28 used to calculate unearned finance expense for short-term trade payables in terms of TL, USD and EUR and weighted average maturity is 314 days. (31.12.2015: %10,28 %0,71 and %-0,09; 106 days)

Long-Term Trade Payables

None (31.12.2015: None).

10. OTHER RECEIVABLES AND PAYABLES

<u>Short-Term Other Receivables</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
Deposits and Guarantees	100.657	43.591
Receivables from Tax Office	2.168.458	7.870.968
Receivables from SSI	18.568	-
Blocked Receivables(*)	378.876	59.790
Other Miscellaneous Receivables	11.193	4.828
Total	2.677.752	7.979.177

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

<u>Long-Term Other Receivables</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
Deposits and Guarantees	20.818	29.696
Total	20.818	29.696

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

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

10. OTHER RECEIVABLES AND PAYABLES (continued)

<u>Short-Term Other Payables</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
Taxes and Funds Payable	1.860.315	1.565.547
Other Miscellaneous Payables	1.774	9.727
Restructured Tax According to 6736 Numbered Tax Law	608.384	-
Total	<u>2.470.473</u>	<u>1.575.274</u>

<u>Long-Term Other Payables</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
Restructured Tax According to 6736 Numbered Tax Law	1.168.998	-
Total	<u>1.168.998</u>	<u>-</u>

11. DERIVATIVE FINANCIAL INSTRUMENTS

None (31.12.2015: None).

12. INVENTORIES

	<u>31.12.2016</u>	<u>31.12.2015</u>
Raw materials and supplies	37.082.950	38.805.616
Work-in-process	36.711.597	11.673.251
Finished goods	15.892.952	8.761.146
Commercial goods	2.574.129	430.022
Other Inventories	9.034	24.437
Provision for diminution in value of inventories (-)	(31.332)	(37.600)
Total	<u>92.239.330</u>	<u>59.656.872</u>

As of 31 December 2016, there is commodity insurance amounting TL 25.000.000 on inventories. (31.12.2015 : TL 42.500.000)

<u>Provision for Impairment of Inventories</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
Opening Balance	(37.600)	(5.255)
Additional Provision	-	(37.600)
Cancelled Provision (-)	6.268	5.255
Closing Balance	<u>(31.332)</u>	<u>(37.600)</u>

Group does not has any pledged inventory in return for loans as at December 31,2016. (31.12.2015: None).

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

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

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

	<u>31.12.2016</u>	<u>31.12.2015</u>
Advances Given for Inventories	10.050.782	5.702.660
Prepaid Expenses for Future Months	394.130	241.318
Total	<u>10.444.912</u>	<u>5.943.978</u>

Long-Term Prepaid Expenses

	<u>31.12.2016</u>	<u>31.12.2015</u>
Advances Given for Property	1.735.478	1.106.755
Prepaid Expenses for Future Years	114.605	18.032
Total	<u>1.850.083</u>	<u>1.124.787</u>

Short-Term Deferred Income

	<u>31.12.2016</u>	<u>31.12.2015</u>
Deferred Income for Future Months	5.477.549	7.020.798
Total	<u>5.477.549</u>	<u>7.020.798</u>

Long-Term Deferred Income

None (31.12.2015: None).

14. CONSTRUCTION AGREEMENTS

None (31.12.2015: None).

15. INVESTMENTS ACCORDING TO EQUITY METHOD

None (31.12.2015: None).

16. INVESTMENT PROPERTIES

	<u>01.01.2016</u>				<u>31.12.2016</u>
<u>Fair Value</u>	<u>Opening</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Appreciation</u>	<u>Closing</u>
Lands	5.205.500	-	-	465.250	5.670.750
Buildings	1.453.500	-	-	75.750	1.529.250
Investment Properties	<u>6.659.000</u>	<u>-</u>	<u>-</u>	<u>541.000</u>	<u>7.200.000</u>

	<u>01.01.2015</u>				<u>31.12.2015</u>
<u>Fair Value</u>	<u>Opening</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Appreciation</u>	<u>Closing</u>
Lands	8.380.618	(2.591.957) (*)	(1.066.000)	482.839	5.205.500
Buildings	369.339		1.066.000	18.161	1.453.500
Investment Properties	<u>8.749.957</u>	<u>(2.591.957) (*)</u>	<u>-</u>	<u>501.000</u>	<u>6.659.000</u>

16. INVESTMENT PROPERTIES (continued)

(*) The amount is about the transfer of Group’s land which is shown in Investment properties to Denge İnşaat A.Ş in the frame of construction contract by flat for land.

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

According to 30 December 2016 dated expertise report, total values of factory bulding and lands located in Çiğli / İzmir set as TL 5.183.000, the total value of lands located in Güzelbahçe / İzmir set as TL 910.000 and the total value of buildings located in Ataşehir /İstanbul set as TL 1.107.000. Property values calculated according to coefficient comparison, cost, income comparison and direct capitilazition methods.

Company does not has any liabilities arising from building, developing and maintenance agreements for Investment properties as of balance sheet date.

Group has been earned amounting to TL 72.090 rent income from investment properties. (31.12.2015: TL 64.106). There is amounting to TL 15.600.000 mortgage over investment properties. (31.12.2015: TL 15.600.000).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

17. PROPERTY, PLANT AND EQUIPMENT

								31.12.2016
<u>Acquisition Cost</u>	<u>Land and Parcels</u>	<u>Underground and Overland Plants</u>	<u>Buildings</u>	<u>Plants Machinery and Equipment</u>	<u>Vehicles</u>	<u>Fixtures</u>	<u>Ongoing Investments</u>	<u>Total</u>
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)
Tangible Fixed Assets, net	21.301.000	1.330.035	12.585.971	5.253.626	604.963	968.723	587.528	42.631.846

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

17. PROPERTY, PLANT AND EQUIPMENT (continued)

								31.12.2015
<u>Acquisition Cost</u>	<u>Land and Parcels</u>	<u>Underground and Overland Plants</u>	<u>Buildings</u>	<u>Plants Machinery and Equipment</u>	<u>Vehicles</u>	<u>Fixtures</u>	<u>Ongoing Investments</u>	<u>Total</u>
Opening Balance	14.987.200	770.000	8.392.300	4.119.904	964.148	1.363.037	464.425	31.061.014
Purchases	-	45.120	-	2.235.195	53.182	477.116	1.523.453	4.334.066
Disposals	-	-	-	(102.263)	(62.717)	(41.900)	(772.505)	(979.385)
Valuation	1.869.360	80.000	781.500	-	-	-	-	2.730.860
Adjustment	-	-	-	6.600	-	-	-	6.600
Transfers from Ongoing Investments	460.140	18.915	-	63.558	146.879	83.013	-	772.505
Closing Balance	17.316.700	914.035	9.173.800	6.322.994	1.101.492	1.881.266	1.215.373	37.925.660
<u>Accumulated Depreciation and Impairment</u>								
Opening Balance	-	(16.943)	(117.438)	(2.201.939)	(365.692)	(919.972)	-	(3.621.984)
Period Expense	-	(6.437)	(134.841)	(626.694)	(162.281)	(191.524)	-	(1.121.777)
Adjustment	-	16.944	117.437	-	-	-	-	134.381
Disposals	-	-	-	101.763	40.212	28.227	-	170.202
Closing Balance	-	(6.436)	(134.842)	(2.726.870)	(487.761)	(1.083.269)	-	(4.439.178)
Tangible Fixed Assets, net	17.316.700	907.599	9.038.958	3.596.124	613.731	797.997	1.215.373	33.486.482

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

According to 30 December 2016 dated expertise report, total values of factory bulding and lands located in Çiğli / İzmir set as TL 29.400.000, the total value of land and factory located in Ankara Industrial Estate set as TL 3.440.000. Property values calculated according to coefficient comparison, cost, income comparison and direct capitilazition methods. There are TL 30.000.000, USD 5.000.000 and EUR 600.000 mortgage over Tangible Fixed Assets.

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

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

17. PROPERTY, PLANT AND EQUIPMENT (continued)

Useful lives of tangible assets are as follows:

	Süre (Yıl)
Underground and Overland Plants	8
Buildings	50
Plants Machinery and Equipment	2-10
Plants Machinery and Equipment (Leasing)	4-10
Vehicles	5
Fixtures	2-10

The total amount of amortization cost of tangible fixed assets is TL 1.417.081 (31.12.2015: TL 1.121.777). The amount of TL 974.742 is included in cost of goods sold (Note 28), TL 142.630 (31.12.2015: None) is included in cost of service sold, TL 8.868 (31.12.2015: None) is included in research and development expenses, TL 53.628 (31.12.2015: TL 54.620) is included in marketing expense (Note 29), TL 237.213 (31.12.2015: TL 276.104) is included in general administrative expenses (Note 30).

As of 31.12.2016, There are USD 5.000.000, EUR 600.000 and TL 45.600.000 mortgage over Tangible Fixed Assets. (31.12.2015: EUR 600.000, USD 5.000.000 and TL 15.600.000 mortgage on tangible fixed assets.) There is TL 8.671.000 insurance coverage. (31.12.2015: TL 8.671.000)

18. INTANGIBLE FIXED ASSETS

	31.12.2016				
	<u>Rights</u>	<u>Leasehold Improvements</u>	<u>Activated Development Costs</u>	<u>Other Intangible Fixed Assets</u>	<u>Total</u>
Acquisition Cost					
Readjusted 1 January 2016	681.791	-	-	4.346.432	5.028.223
Purchases	96.402	12.754	5.424.459	1.281.184	6.814.799
Yapılmakta olan yatırımlardan transferler	423.271	(2.639)	-	-	420.632
Effect of Consolidation	-	(10.115)	-	-	(10.115)
Transfers from Tangible Assets	-	-	-	(989.753)	(989.753)
Disposals	-	-	-	-	-
Closing Balance	1.201.464	-	5.424.459	4.637.863	11.263.786
Accumulated Amortization and Depletion					
	(557.227)	-	-	(678.095)	(1.235.322)
Period Expense	(86.844)	-	(48.102)	(481.363)	(616.309)
Effect of Consolidation	-	-	-	-	-
Transfers from Tangible Assets	-	-	-	305.641	305.641
Disposals	-	-	-	-	-
Closing Balance	(644.071)	-	(48.102)	(853.817)	(1.545.990)
Intangible Fixed Assets, net	557.393	-	5.376.357	3.784.046	9.717.796

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

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

18. INTANGIBLE FIXED ASSETS (continued)

31.12.2015

	<u>Rights</u>	<u>Leasehold Improvements</u>	<u>Other Intangible Fixed Assets</u>	<u>Total</u>
<u>Acquisition Cost</u>				
Readjusted 1 January 2015	702.642	-	2.622.118	3.324.760
Purchases	115.164	142.625	1.724.314	1.982.103
Effect of Consolidation	-	(142.625)	-	(142.625)
Disposals	(136.015)	-	-	(136.015)
Closing Balance	681.791	-	4.346.432	5.028.223
<u>Accumulated Amortization and Depletion</u>				
	(468.249)	-	(329.544)	(797.793)
Period Expense	(105.337)	-	(348.552)	(453.889)
Effect of Consolidation	-	76.206	-	76.206
Adjustment	-	(76.206)	-	(76.206)
Disposals	16.359	-	-	16.359
Closing Balance	(557.227)	-	(678.096)	(1.235.323)
Intangible Fixed Assets, net	124.564	-	3.668.336	3.792.900

Intangible assets are consist of computer software and user licenses.

Cari yıl itfa payı giderlerinin toplamı 616.309 TL dir. (31.12.2015: 453.889 TL) Bu tutarın 508.558 TL tutarındaki kısmı satışların maliyetine (31.12.2015: 371.410 TL) (Not 28), 22.742 TL tutarındaki kısmı genel yönetim giderlerine (31.12.2015: 75.319 TL) (Not 29), 73.140 TL tutarındaki kısmı Araştırma ve Geliştirme giderlerine (31.12.2015: bulunmamaktadır.), 11.869 TL tutarındaki kısmı Pazarlama giderlerine (31.12.2015: 7.160) (Not 30) dahil edilmiştir.

The total amount of depreciation cost of intangible fixed assets is TL 616.309 (31.12.2015: TL 453.889). Amounting of TL 508.558 of this amount is included in cost of goods sold (31.12.2015: TL 371.410 TL) (Note 28), TL 73.140 is included in general administrative expenses (31.12.2015: TL 75.319) (Not 29), TL 73.140 (31.12.2015: None) is included in research and development expenses, TL 11.869 is included in marketing expenses (31.12.2015: 7.160) (Not 30).

Depreciation terms of tangible assets are as follows:

	Economic Life
Rights	3 years
Other Intangible Fixed Assets	3 years
Activated Development Costs	5 years

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

19. LEASING OPERATIONS

Operational Leases

The Group as lessee

Leasing Contracts:

Group has 6 rental agreement related with Ankara and İzmir branch offices and İzmir storage buildings. Also there are 2 vehicle rent agreements.

<u>Payments booked as expenses:</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
Minimum Rental Payments	844.424	586.875
Conditional Rental Payments	-	-
Collected Payments from Secondary Lease	-	-

<u>Payment related to non-cancellable operational leases:</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
Within 1 year	844.424	586.875
Between 1 – 5 years	-	-
After 5 years	-	-

The Group as lessor

The operating leases between the period 2010 and 2016 are related with vehicles, warehouse and office leasing. If Company decide to renew operating leases than agreements would be revized according to market conditions. Company does not has the right to purchase rental assets at the end of lease term.

As of 31 December 2016, the Group earned TL 72.090 from operating leasing (31.12.2015: TL 64.106).

20. IMPAIRMENT OF ASSETS

	<u>31.12.2016</u>	<u>31.12.2015</u>
Provision for Doubtful Trade Receivables (Note 9)	2.911.976	2.721.528
Provision for Inventory Impairment (Note 12)	31.332	37.600
	<u>2.943.308</u>	<u>2.759.128</u>

21. GOVERNMENT GRANTS

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

- Group get benefit from SSI employer immunity TL 809.148 within the scope of various laws of Social Security Institution (31.12.2015: 393. TL 697.022).
- The Group also get benefit from tender decisions, contracts and payment of stamp duty exception amounting TL 788.919 belonging to various public institutions in the frame of Tax, and Exemption Certificate which is regulated by Ministry Of Economy on various dates. (31.12.2015: TL 1.245.381)

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

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

21. GOVERNMENT GRANTS (continued)

- Company get tax and ssi Premium benefit regarding research and development employees amounting to TL 445.616 (31.12.2015: None.)
- Also get corporate tax deduction regarding research and development operations amounting to TL 1.404.677 (31.12.2015: None.)

22. BORROWING COST

None. (31.12.2015: None).

23. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

<u>Short-Term Payable Provision</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
Warranty Expense Provision	335.900	776.045
Court Expense Provision	45.772	56.793
Potential Expense	-	4.106
Total	381.672	836.944

Ongoing Lawsuits And Execution Proceedings

There are 2 lawsuits filed and continuing as of 31 December 2016 , amounting TL 45.772. Regarding to this lawsuits the Gruop has made provision for all of the amount (31.12.2015: TL 56.793).

Collateral, Pledges, Mortgages, Bails

Colleterals, Pledges, Mortgages and Bails position table as of 31 December 2016 ve 31 December 2015 as below;

	<u>31.12.2016</u>			
<u>CPMB's given by the Company (Collaterals, Pledges, Mortgages, Bail)</u>	<u>TL Equivalent</u>	<u>USD</u>	<u>EUR</u>	<u>TL</u>
A. CPMB's given for company's own legal personality	92.540.452	6.584.186	5.459.952	51.813.509
B. CPMB's given on behalf of fully consolidated Companies	-	-	-	-
C. CPMB's given of behalf of third parties for ordinary course of business	-	-	-	-
D. CPMB's given within the scope of Corporate Governance Communique's 12/2 clause				
i) Total amount of CPMB's given on behalf of majotary shareholder	-	-	-	-
ii) Total amount of CPMB's given on behalf of other Group companies which are not in scope of B and C	-	-	-	-
iii) Total amount of CPMB's given on behalf of third parties which are not in scoppe of C	-	-	-	-
Total	92.540.452	6.584.186	5.459.652	51.813.509

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

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

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

	<u>31.12.2015</u>			
<u>CPMB’s given by the Company</u> <u>(Collaterals, Pledges, Mortgages, Bail)</u>	<u>TL Equivalent</u>	<u>USD</u>	<u>EUR</u>	<u>TL</u>
A. CPMB’s given for company’s own legal personality	47.285.883	5.853.385	2.938.836	20.928.136
B. CPMB’s given on behalf of fully consolidated Companies	-	-	-	-
C. CPMB’s given of behalf of third parties for ordinary course of business	-	-	-	-
D. CPMB’s given within the scope of Corporate Governance Communique’s 12/2 clause				
i) Total amount of CPMB’s given on behalf of majotary shareholder	-	-	-	-
ii) Total amount of CPMB’s given on behalf of other Group companies which are not in scope of B and C	-	-	-	-
iii) Total amount of CPMB’s given on behalf of third parties which are not in scoppe of C	-	-	-	-
Total	47.285.883	5.853.385	2.938.836	20.928.136

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

Colleterals, Pledges, Mortgages and Bails position table as of 31 December 2016 ve 31 December 2015 as below;

	<u>31.12.2016</u>				<u>31.12.2015</u>			
<u>Collaterals,</u> <u>Pledges,</u> <u>Mortgages</u>	<u>Total TL</u> <u>Equivalents</u>	<u>USD</u>	<u>EUR</u>	<u>TL</u>	<u>Total TL</u> <u>Equivalents</u>	<u>USD</u>	<u>EUR</u>	<u>TL</u>
Colleterals	29.818.512	1.584.186	4.859.952	6.213.509	15.241.323	853.385	2.338.836	5.328.136
Mortgages	65.421.940	5.000.000	600.000	45.600.000	32.044.560	5.000.000	600.000	15.600.000
Total	95.240.452	6.584.186	5.459.952	51.813.509	47.285.883	5.853.385	2.938.836	20.928.136

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

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

24. COMMITMENTS

None (31.12.2015: None).

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

	<u>31.12.2016</u>	<u>31.12.2015</u>
Unused Leave Provision	711.803	562.124
Total	711.803	562.124

Provision for Long-Term Employee Benefits

	<u>31.12.2016</u>	<u>31.12.2015</u>
Severance Pay Provision	3.498.780	2.609.471
Total	3.498.780	2.609.471

Scope of Employee Benefit Obligations

	<u>31.12.2016</u>	<u>31.12.2015</u>
Payables to Personnel	193.819	278.821
Social Security Premiums Payable	1.337.913	476.473
Total	1.331.732	755.294

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

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

As at balance sheet date, provisions calculated according to assumption % 5 expected salary increasing rate and % 9,12 discount rate and about % 3,92 real discount rate and retiring assumption as follows. (31.12.2015: % 5 expected salary increasing rate, % 10,18 discount rate, % 5,03 real discount 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 2016 are calculated by estimating present value of probable liabilities arising due to retirement of employees.

	<u>31.12.2016</u>	<u>31.12.2015</u>
Annual Discount Rate (%)	3,92	5,03
Retiring Assumption (%)	95	95

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

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

25. EMPLOYEE BENEFITS (continued)

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

The movement of provision for severance pay are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Provision as of 1 st January	2.609.471	2.246.329
Service Cost	865.242	594.336
Interest Cost	219.251	173.596
Severance Pay Cancelled	(416.930)	(315.582)
Defined Benefit Plans Remeasurement Gain / Loss (*)	221.746	(89.208)
Total Provisions as of Period End	3.498.780	2.609.471

(*) As of December 31, 2016, TL 221.746 (2015: TL 89.208) defined benefit plans remeasurement gain / losses booked in statement of comprehensive income.

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

26. OTHER ASSETS AND LIABILITIES**Other Current Assets**

	31.12.2016	31.12.2015
Deferred VAT	12.054.163	9.928.902
Work Advances	270.245	505.610
Total	12.324.408	10.434.512

Other Non-Current Assets

None. (31.12.2015: None)

Other Short-Term Liabilities

None. (31.12.2015: None)

Other Long-Term Liabilities

None. (31.12.2015: None)

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

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

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

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

	<u>31.12.2016</u>		<u>31.12.2015</u>	
	<u>Share Rate</u>	<u>Share Amount</u>	<u>Share Rate</u>	<u>Share Amount</u>
Shareholders	(%)	TL	(%)	TL
İsmail Katmerci	46,11	11.528.333	46,11	11.528.333
Havva Katmerci	4,40	1.100.000	4,40	1.100.000
Mehmet Katmerci	4,40	1.100.000	4,40	1.100.000
Ayşenur Çobanoğlu	4,40	1.100.000	4,40	1.100.000
Furkan Katmerci	4,40	1.100.000	4,40	1.100.000
Public Part (*)	36,29	9.071.667	36,29	9.071.667
Capital	100,00	25.000.000	100,00	25.000.000
Unpaid Capital (-)		-		-
Paid-in Capital		25.000.000		25.000.000

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

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

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

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

b) Re-acquired Shares

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

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

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

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

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

	<u>31.12.2016</u>	<u>31.12.2015</u>
Tangible Assets Revaluation and Remeasurement Gain / (Loss)	11.259.003	9.976.331
	<u>11.259.003</u>	<u>9.976.331</u>

Tangible Assets Revaluation and Remeasurement Gain / (Loss)

	<u>31.12.2016</u>	<u>31.12.2015</u>
Opening Balance	9.976.331	7.309.143
Increase from Tangible Assets Revaluation	1.350.607	2.810.450
Deferred Tax Liability from Revaluation	(67.935)	(143.262)
Closing Balance	<u>11.259.003</u>	<u>9.976.331</u>

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

	<u>31.12.2016</u>	<u>31.12.2015</u>
Defined Benefit Plans Remeasurement Gain / Loss	(504.658)	(238.563)
	<u>(504.658)</u>	<u>(238.563)</u>

e) Restricted Reserves Outgoing from Profit

	<u>31.12.2016</u>	<u>31.12.2015</u>
Legal Reserves	3.150.869	2.061.453
Total	<u>3.150.869</u>	<u>2.061.453</u>

f) Retained Profit / (Loss)

	<u>31.12.2016</u>	<u>31.12.2015</u>
Retained Profit / (Loss)	26.570.969	9.039.516
Total	<u>26.570.969</u>	<u>9.039.516</u>

g) Minority Shares

	<u>31.12.2016</u>	<u>31.12.2015</u>
Balance at 1 January	17.910	3.116.498
Additions / Disposals (*)	(3)	(3.107.575)
Minority Profit / (Loss) Share	4.664	8.987
Minority Shares	<u>22.571</u>	<u>17.910</u>

h) Merge Effect of Common Controlled Entity and Business

	<u>31.12.2016</u>	<u>31.12.2015</u>
Merge Effect of Common Controlled Entity and Business (**)	(1.759.039)	(1.759.039)
Total	<u>(1.759.039)</u>	<u>(1.759.039)</u>

(*) Company has been increased shares on subsidiary Gimkat Araç Üstü Ekipman Sanayi ve Ticaret A.Ş. from % 49,99 to % 100 as at 26.10.2015 with 2015/27 numbered Board Decision and share transfer annaunced on 26.10.2015 date at Public Disclosure Platform and 21.12.2015 dated and 8972 numbareed trade registry gazette.

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

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

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

27. CAPITAL, RESERVES AND OTHER EQUITY COMPONENTS (continued)**1) Profit Distribution**

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

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

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

28. SALES AND COST OF SALES

<u>Sales (net)</u>	<u>01.01-31.12.2016</u>	<u>01.01-31.12.2015</u>
Domestic Sales	78.786.177	194.359.732
- Finished Good Sales	78.786.177	194.359.732
Export Sales	64.101.416	115.716.922
Other Sales	2.016.602	866.582
- Other Income	2.016.602	866.582
Income Total	144.904.195	310.943.236
Return from Sales (-)	(320.598)	(270.330)
Sales Income, (net)	144.583.597	310.672.906
<u>Cost of Sales (-)</u>	<u>01.01-31.12.2016</u>	<u>01.01-31.12.2015</u>
-Cost of Services Sold	3.690.096	1.766.329
-Provisions for Severance Payments	805.378	560.026
-Cost of Finished Goods Sold	77.845.606	209.121.814
-Cost of Commercial Goods Sold	4.425.629	22.856.473
-Cost of Other Sales	1.380.423	2.474.808
Cost of Sales	88.147.132	236.779.450
Gross Profit (Loss)	56.436.465	73.893.456

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

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

29. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES AND RESEARCH AND DEVELOPMENT EXPENSES

	<u>01.01.-31.12.2016</u>	<u>01.01.-31.12.2015</u>
General Administrative Expenses (-)	13.136.245	16.636.072
Marketing Expenses (-)	15.009.793	14.905.336
Research and Development Expenses (-)	1.500.054	55.846
Total	<u>29.646.092</u>	<u>31.597.254</u>

<u>Research and Development Expenses (-)</u>	<u>01.01.-31.12.2016</u>	<u>01.01.-31.12.2015</u>
Contribution Expenses	5.372	-
Depreciation Expenses	82.008	-
Training Expenses	18.508	-
Equipment Expenses	938.352	-
Consultancy Expenses	43.135	-
Personnel Expenses	371.511	-
Other Expenses	41.168	55.846
Total	<u>1.500.054</u>	<u>55.846</u>

<u>Marketing Expenses (-)</u>	<u>01.01.-31.12.2016</u>	<u>01.01.-31.12.2015</u>
Contribution Expenses	51.322	18.537
Depreciation Expenses	65.497	61.779
Maintenance Expenses	18.089	28.518
Courtcase Execution and Notary Expense	161.850	173.717
Services Rendered from 3rd Parties	119.498	63.414
Electricity, Water and Heating Expenses	207.625	155.945
Communication Expense	40.594	85.602
Advertising Expenses	34.892	38.225
Export Expenses	642.510	1.275.934
Export Commissions	3.650.645	3.927.111
Rent Expenses	632.165	308.749
Transportation Expense	374.168	645.138
Personnel Expenses	3.889.395	3.357.430
Travelling Expense	579.910	538.391
Insurance Expense	142.996	100.097
Tax, Duties and Fees	343.103	551.704
Domestic Sales, Service, Commission Expenses	1.924.206	2.203.444
Exhibition Expense	1.243.304	479.634
Tender Expense	285.812	97.241
Entertainment Expenses	178.208	310.046
Other Expenses	424.004	484.681
Total	<u>15.009.793</u>	<u>14.905.336</u>

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

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

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

<u>General Administrative Expenses (-)</u>	<u>01.01.-31.12.2016</u>	<u>01.01.-31.12.2015</u>
Contribution Expenses	183.937	126.051
Depreciation Expenses	259.955	351.422
Maintenance Expenses	25.497	42.685
IT Expense	57.928	113.894
Fine and Late Fee	-	59.510
Courtcase Execution and Notary Expense	38.205	54.792
Services Rendered from 3rd Parties	104.440	182.451
Electricity, Water and Heating Expenses	108.799	88.383
Communication Expense	56.080	57.323
Advertising Expenses	205.799	234.052
Rent Expenses	145.512	217.600
Consulting Expenses	664.159	503.299
Personnel Expenses	7.968.526	5.380.244
Travelling Expense	418.748	383.332
Insurance Expense	75.718	39.255
Bond Issuance Expense (*)	-	472.153
Tax, Duties and Fees	214.858	136.121
Provision for Doubtful Receivables	-	6.086.600
Donations and Grants	440.000	48.921
Consulting Expenses	253.097	-
Other Expenses	1.914.987	2.057.986
Toplam	13.136.245	16.636.072

(*) The amount has been reported in Financial Expenses within 2016.

30. EXPENSES BY NATURE

Amortization Expense	<u>01.01-31.12.2016</u>	<u>01.01-31.12.2015</u>
General Production Expenses	974.742	670.654
Service Cost	142.630	120.400
Research and Development Expenses	8.868	-
Marketing Expenses	53.628	54.620
General Administrative Expenses	237.213	276.104
Total	1.417.081	1.121.778

Depreciation Expenses	<u>01.01-31.12.2016</u>	<u>01.01-31.12.2015</u>
General Production Expenses	508.558	371.410
Research and Development Expenses	73.140	-
Marketing Expenses	11.869	7.160
General Administrative Expenses	22.742	75.319
Total	616.309	453.889

Personnel Expenses	<u>01.01-31.12.2016</u>	<u>01.01-31.12.2015</u>
Personnel Expenses	27.102.391	26.787.984
Severance Pay Expense	1.084.493	767.932
Vacation Provision	149.679	(31.459)
Total	28.336.563	27.524.457

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

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

31. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

<u>Other Operating Income</u>	<u>01.01.-31.12.2016</u>	<u>01.01.-31.12.2015</u>
Provisions no Longer Required	1.685.916	639.045
Exchange Difference Income	15.988.262	19.945.281
Issurance Damage Income	-	5.276
Current Account Late Charge Income	-	701.703
Rediscount Income	776.594	1.772.686
Other Income and Profits	346.132	2.004.851
Total	18.796.904	25.068.842

<u>Other Operating Expenses</u>	<u>01.01.-31.12.2016</u>	<u>01.01.-31.12.2015</u>
Provision Expense (-)	352.335	1.726.028
Exchange Difference Expense (-)	5.392.288	17.512.858
Rediscount Expenses (-)	984.008	2.144.052
Expenses According to 6736 Tax Law (-)	1.606.595	-
Other Expenses and Losses (-)	43.411	234.348
Total	8.378.637	21.617.286

32. INCOME AND EXPENSES FROM INVESTING OPERATIONS

<u>Other Income from Investing Activities</u>	<u>01.01-31.12.2016</u>	<u>01.01-31.12.2015</u>
Rental Income	72.090	64.106
Investment Property Appreciation	541.000	501.000
Tangible Assets Sales Income	16.924	35.112
Securities Sales Income	76.042	-
Interest Income	554.488	201.035
Other	14	6.765
Total	1.260.558	808.018

<u>Other Expense from Investing Activities (-)</u>	<u>01.01-31.12.2016</u>	<u>01.01-31.12.2015</u>
Investment Property Sales Expense (-)	-	1.037.455
Tangible Assets Depreciation (-)	557.089	-
Total	557.089	1.037.455

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

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

33. FINANCIAL INCOME AND EXPENSES

	<u>01.01.2016</u> <u>31.12.2016</u>	<u>01.01.2015</u> <u>31.12.2015</u>
<u>Financial Income</u>		
Foreign Exchange Gains	2.567.257	12.725.779
Total	2.567.257	12.725.779

	<u>01.01.2016</u> <u>31.12.2016</u>	<u>01.01.2015</u> <u>31.12.2015</u>
<u>Financial Expense</u>		
Interest and Commission Expense (-)	16.363.083	12.811.689
Foreign Exchange Losses (-)	12.557.520	21.682.465
Total	28.920.603	34.494.154

34. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

None (31.12.2015: None).

35. INCOME TAXES**Current Tax Related to Assets**

	<u>31.12.2016</u>	<u>31.12.2015</u>
Prepaid Taxes and Funds	2.193	2.193

Tax Provision

	<u>31.12.2016</u>	<u>31.12.2015</u>
Current Income Tax Provision (-)	(2.196.848)	(7.056.176)
Deferred Tax Provision Income / (Loss)	239.557	1.936.086
Total	(1.957.291)	(5.120.090)

Corporate Tax

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

The corporations earning income from a company or a branch in Turkey do not pay any withholding tax on their dividends. Other dividend payments are subject to withholding tax of 15%. If profit is added to the capital, withholding tax is not applicable.

Corporations calculate and pay quarterly temporary corporate tax of 20%. The temporary taxes paid within the year will be offset against the final corporate tax liability for the year. The temporary tax can be offset against any other financial liability against the state.

Tax losses that are reported in the Corporation tax return may be carried forward and deducted from the corporation tax base for a maximum period of five years following the year in which the losses were incurred.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

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

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

	<u>31.12.2016</u>	<u>31.12.2015</u>
Profit Before Tax	11.558.763	23.749.946
Taxable Profit	11.558.763	23.749.946
Corporate Tax Rate (%20)	20%	20%
Canceled Tax	2.311.753	4.749.989
Nonallowable Charges	338.864	715.773
Exemptions and Deductions	(1.487.920)	(327.391)
Deferred Tax Income / Expense, Net	239.557	1.936.086
Other	794.594	(18.281)
	<u>2.196.848</u>	<u>7.056.176</u>

Deferred Tax:

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

35. INCOME TAXES (continued)

	31 December 2016		31 December 2015	
	TEMPORARY DIFFERENCES	Deferred Tax Assets / (Liabilities)	TEMPORARY DIFFERENCES	Deferred Tax Assets / (Liabilities)
Deferred Tax Liabilities		(990.359)		(1.065.304)
Terminated Provisions (Doubtful Receivables+ Inventory Impairment)	46.853	(9.371)	87.420	(17.484)
Previous Period Inventory Rediscount Adj.	323.066	(64.613)	0	0
Receivable Rediscount (Reversal)	192.591	(38.518)	106.811	(21.362)
Real Estate Appreciation (Investment Purpose)	135.250	(27.050)	554.634	(27.732)
Tangible Asset Sales Adjustment (TPL Sales Loss Reversal+IFRS Profit on Sale)	22.982	(4.596)	953.446	(190.689)
TPL(Tax Procedure Law) Amortization Expense Reversal	3.033.552	(606.710)	2.098.579	(419.716)
Leave Provision Reversal	117.863	(23.573)	84.698	(16.940)
Severance Pay Provision Reversal	416.930	(83.386)	340.058	(68.012)
Payable Rediscount	118.962	(23.792)	237.994	(47.599)
Other IFRS Adjustments	861	(172)	-	-
Warranty Expense Provision Reversal	776.045	(155.209)	472.907	(94.581)
Deferred Tax Liability Deducted from Real Estate Appreciation Fund	932.634	46.632	2.865.241	(143.262)
Reclassification of Expenses According to Tax Procedure Law (TPL)	-	-	89.636	(17.927)
Deferred Tax Assets		1.229.916		3.001.388
Receivable Impairment (Receivables Booked as Expense)	(13.600)	2.720	38.175	(7.635)
Tangible Assets Sales Adjustment (TPL Sales Profit Reversal+IFRS Sales Loss)	(27.727)	5.545	(3.499.290)	699.858
Reclassification of Expenses Capitalized According to TPL	(426.777)	85.355	(825.195)	165.039
Current Period IAS 16, IAS 38 Amortization Expense	(3.026.631)	605.326	(1.651.870)	330.374
TPL Amortization Expense Adjustment	-	-	(75.865)	15.173
Impairment of Inventories	-	-	(37.600)	7.520
Severance Pay Provision	(1.084.493)	216.899	(767.930)	153.586
Receivable Rediscount	(167.225)	33.445	(192.590)	38.518
Inventory Rediscount	(165.245)	33.049		
Leave Provision	(267.541)	53.508	(66.650)	13.330
Other IFRS Adjustments	(56.554)	11.311	-	-
Warranty Expense Provision	(335.900)	67.180	(911.615)	182.323
Provision for Doubtful Receivables	-	-	(6.086.600)	1.217.320
Payable Rediscount (Reversal)	(237.994)	47.599	(189.135)	37.827
Provisions no Longer Required Adjustment	(15.963)	3.193	(22.547)	4.509
Real Estate Appreciation	-	-	(7.690)	384
Real Estate Appreciation Deferred Tax Assets	(557.090)	111.418	-	-
Deferred Tax Liability Deducted from Real Estate (Intended Purpose) Value Fund	(932.634)	(46.632)	(2.865.241)	143.262
Net, Deferred Tax Receivables Reflected to Profit / (Loss)		239.557		1.936.084

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

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

36. EARNING PER SHARE

	<u>01.01.2016</u> <u>31.12.2016</u>	<u>01.01.2015</u> <u>31.12.2015</u>
Net Profit / (Loss), Parent	9.596.808	18.620.869
Weighted Average Number of Shares	25.000.000	25.000.000
Earning / (Loss) Per Share from Operating Activities	0,384	0,745
Diluted Earning / (Loss) Per Share from Operating Activities		

37. RELATED PARTY DISCLOSURES

	31.12.2016			
	Receivables		Payables	
	Short Term		Short Term	
Balances with Related Parties	Trade	Non-Trade	Trade	Non-Trade
Shareholders	142.290	-	-	-
Ktm Gayrimenkul Yatırım Tah.Tic.A.Ş.	69.212	-	-	-
Ktm İş ve Endüstriyel Mak.Tic.A.Ş.	476.126	-	-	-
Total	687.628	-	-	-
	31.12.2015			
	Receivables		Payables	
	Short Term		Short Term	
Balances with Related Parties	Trade	Non-Trade	Trade	Non-Trade
Shareholders	354	-	-	-
Ktm Gayrimenkul Yatırım Tah.Tic.A.Ş.	26.168	-	-	-
Ktm İş ve Endüstriyel Mak.Tic.A.Ş.	429.347	-	-	-
Total	455.869	-	-	-

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

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

37. RELATED PARTY DISCLOSURES (continued)

Transactions with related parties between 01.01.-31.12.2016 and 01.01.-31.12.2015 as follows:

01 January - 31 December 2016

Transactions wit Related Parties	Purchasing of Goods	Selling of Goods	Selling of Real Estate	Purchasing of Services	Selling of Services	Purchasing of Share
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	-
Total	-	-	-	4.809.720	6.018	-

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

01 January - 31 December 2015

İlişkili taraflarla olan işlemler	Purchasing of Goods	Selling of Goods	Selling of Real Estate	Purchasing of Services	Selling of Services	Purchasing of Share
Shareholders	-	-	313.687	9.000	2124	
Related Party						
Ktm Gayrimenkul Yatırım Tah.Tic.A.Ş.	-	-	-	-	-	-
Ktm İş ve Endüstriyel Mak.Tic.A.Ş.	-	-	-	-	-	-
Gımaex Schmitz Fire And Rescue	279.532	9.110	-	-	-	-
Gımaex S.A.S.		70.645	-	-	-	-
Gımaex Roanne	-	3.812.909	-	-	-	1.432.665 (*)
Gımaex Egi Sa	-	46.360	-	-	-	-
One Seven	639.237	-	-	-	-	-
Total	918.769	3.939.024	313.687	9.000	2.124	1.432.665

(*) Amount is related to purchasing Gimkat A.Ş.’s partner Gımaex Roanne’s shares.

(**) Related party operations with Gımaex companies consist of operations until sales of shares.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

38. KEY MANAGEMENT PERSONNEL

The Group's top management consists of chairman of the executive board and board members, general manager, executive president and acting chairman, chief financial officer, export sales director. Benefits to key management personnels for the period 1 January-31 December 2016 and 1 January-31 December 2015 are listed below:

	<u>01.01-</u> <u>31.12.2016</u>	<u>01.01-</u> <u>31.12.2015</u>
<u>Benefits to Key Personnel</u>		
Salary, premium etc. Benefits	5.630.460	3.093.487
Severance Pay Provision	39.660	24.512
Total	5.670.120	3.117.999

39. QUALITY AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS**a) Capital Risk Management**

The aims of Group are to be beneficial for all shareholders and maintaining the best capital combination to reduce capital cost and keeping on entity when managing the capital.

The Group's capital risk management, calculating as disclosed in note 8 and 10 including loans, debts, and, respectively, of cash and cash equivalents as disclosed in note 6, paid-in capital, defined benefit plans, re-measurement gains / losses, capital reserves, profit reserves and retained earnings / (loss) comprising shareholders' equity are taken into account and as disclosed in note 28.

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

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

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

	<u>31.12.2016</u>	<u>31.12.2015</u>
Financial Liabilities	164.776.461	102.342.439
Less : Cash and Cash Equivalents	(6.161.712)	(16.981.050)
Net Financial Liabilities	158.614.749	85.361.389
Total Equity	72.175.225	62.679.650
Liabilities / Equity Ratio	2,20	1,36

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

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

b) Financial Risk Factors

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

b.1) Credit Risk

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

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

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

39. 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:**

31.12.2016	Receivables				Cash and Cash Equivalents
	Trade Receivables		Other Receivables		Banks Deposit
	Related	3rd	Related	3rd	
Current Period	Parties	Parties	Parties	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)	687.628	98.712.534		2.698.570	6.142.724
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 (-)	-	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	-	-	-	-	-

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

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

39. 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:**

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

(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 CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

39. 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)			
Non-derivative financial liabilities	202.392.437	202.392.437	50.863.331	99.614.751	51.914.354
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		
TOTAL	202.392.437	202.392.437	50.863.331	99.614.751	51.914.354

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)			
Non-derivative financial liabilities	149.696.295	149.696.295	71.822.754	30.132.000	47.741.541
Bank Credits	75.738.420	75.738.420	14.002.541	15.563.397	46.172.482
Principals and Interest Payments of Long-Term Loans	3.597.900	3.597.900	3.597.900	-	-
Issued Bond	20.647.602	20.647.602	20.647.602	-	-
Financial Leasing Liabilities	2.358.520	2.358.520	197.374	592.087	1.569.059
Trade Payables	45.778.579	45.778.579	21.244.463	24.534.116	
Other Payables	1.575.274	1.575.274	1.575.274	-	-
TOTAL	149.696.295	149.696.295	71.822.754	30.132.000	47.741.541

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

b) Financial Risk Factors (continued)

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 other price risk.

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

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:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

b) Financial Risk Factors (continued)

b.3.1) Foreign Exchange Risk Management (continued)

CONSOLIDATED EXCHANGE POSITION TABLE	31.12.2016				31.12.2015		
	TL Equivalent	USD	Euro	GBP	TL Equivalent	USD	Euro
1.Trade Receivables	70.561.877	9.472.878	10.033.943	-	57.159.978	9.399.586	9.387.507
2a. Monetary Financial Assets (including cash and bank accounts)	2.681.875	427.582	317.294	-	8.386.019	387.890	2.284.174
2b. Non-Monetary Financial Assets	8.054.318	870.289	1.345.481	-	4.526.303	1.142.515	379.005
3. Other	-	-	-	-	-	-	-
4. Current Assets (1+2+3)	81.298.070	10.770.749	11.696.717	-	70.072.300	10.929.990	12.050.686
5. Trade Receivables	-	-	-	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-	-	-	-
6b. Non-Monetary Financial Assets	-	-	-	-	-	-	-
7. Other	-	-	-	-	-	-	-
8. Non-Current Assets (5+6+7)	-	-	-	-	-	-	-
9. Total Assets (4+8)	81.298.070	10.770.749	11.696.717	-	70.072.300	10.929.990	12.050.686
10. Trade Payables	12.974.100	474.895	3.046.236	375	14.351.631	764.216	3.817.219
11. Financial Liabilities	48.760.647	194.126	12.959.239	-	31.003.909	2.379.722	7.579.504
12a. Other Monetary Financial Liabilities	3.235.653	808.883	104.863	-	-	-	-
12b. Other Non-Monetary Financial Liabilities	5.317.899	719.391	751.023	-	6.771.541	701.290	1.489.322
13. Short-Term Liabilities (10+11+12)	70.288.299	2.197.295	16.861.360	375	52.127.080	3.845.228	12.886.045
14. Trade Payables	-	-	-	-	-	-	-
15. Financial Liabilities	18.082.505	342.258	4.549.457	-	22.279.968	877.492	6.208.639
16a. Other Monetary Financial Liabilities	-	-	-	-	-	-	-
16b. Other Non-Monetary Financial Liabilities	-	-	-	-	-	-	-
17. Long-Term Liabilities (14+15+16)	18.082.505	342.258	4.549.457	-	22.279.968	877.492	6.208.639
18. Total Liabilities (13+17)	88.370.804	2.539.553	21.410.817	375	74.407.048	4.722.720	19.094.684
19. . Off Balance Sheet Derivative Instruments Net Assets / (Liabilities) (19a-19b)	-	-	-	-	-	-	-
19a.Total Assets Hedged	-	-	-	-	-	-	-
19b.Total Liabilities Hedged	-	-	-	-	-	-	-
20. Net Foreign Currency Assets / (Liabilities) (9-18+19)	(7.072.734)	8.231.196	(9.714.100)	(375)	(4.334.748)	6.207.271	(7.043.998)
21. Monetary Items Net Foreign Currency Assets / (Liability) Position (IFRS 7.B23) (1+2a+5+6a-10-11-12a-14-15-16a)	(9.809.153)	8.080.299	(10.308.558)	(375)	(2.089.511)	5.766.046	(5.933.681)
22. Total Fair Value of Financial Instruments Used for Currency Hedge	-	-	-	-	-	-	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

b) Financial Risk Factors (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			
31.12.2016			
	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 (3+6+9)	(707.273)	707.273	-
Exchange Rate Analysis Table			
31.12.2015			
	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	1.804.826	(1.804.826)	-
2- The Amount of USD Hedging (-)	-	-	-
3- USD Net Effect (1+2)	1.804.826	(1.804.826)	-
Increase of 10% change in EUR against TL:			
4- EUR Net Assets / Liabilities	(2.238.301)	2.238.301	-
5- The Amount of EUR Hedging (-)	-	-	-
6- EUR Net Effect (4+5)	(2.238.301)	2.238.301	-
TOTAL (3+6)	(433.475)	433.475	-
Increase of 10% change in Other Currency against TL:			
7- Other Net Assets / Liabilities	-	-	-
8- The Amount of Other Hedging (-)	-	-	-
9- Other Net Effect (7+8)	-	-	-
TOTAL (3+6+9)	(433.475)	433.475	-

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31
DECEMBER 2016
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

39. 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 value of a financial instrument will fluctuate as a result of changes in market prices. The Group’s interest rate risk is primarily attributable to its borrowings. The interest-bearing financial liabilities have variable interest rates, whereas the interest bearing financial assets have a fixed interest rate and future cash flows associated with these financial instruments will not fluctuate in amount. The Group is subject to interest risk due to financial liabilities and finance lease obligations. Policy of the Group is to manage this risk through fixed and variable rates borrowings.

The interest rate risk table as at 31.12.2016 and 31.12.2015 are presented as below:

Interest Position Table			
		Current Period	Previous Period
Fixed-rate Financial Instruments			
	Financial assets fair value differences reflected to income statement	-	-
Financial Assets	Cash and Cash Equivalents		-
Financial Liabilities		92.485.375	72.489.838
Euro Loans		45.756.077	30.138.277
Usd Loans		1.005.490	4.382.169
TL Loans		37.560.236	32.012.972
Principal Payments of Long-Term Loans		5.067.140	3.597.900
Leasing Payables		3.096.432	2.358.520
Floating-rate Financial Instruments			
Financial Assets		-	-
Financial Liabilities		72.291.086	29.852.604
Euro Loans		14.653.626	6.161.638
Usd Loans		599.514	941.108
TL Loans		7.622.280	2.102.255
Issued Bonds		49.415.666	20.647.602

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 2016, 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 539.882 (31.12.2015: TL 353.076) lower/higher.

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

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

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

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

	The Fair Value of the Financial Assets	Loans and Receivables (Including Cash and Cash Equivalents)	Financial Assets Available for Sale	Financial Liabilities are Measured at Amortized Cost	Book Value	Note
31.12.2016						
Financial Assets						
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
Financial Liabilities						
Financial Payables				164.776.461	164.776.461	8
Trade Payables				35.753.887	35.753.887	9
31.12.2015						
Financial Assets						
Cash and Cash Equivalents	-	16.981.050			16.981.050	6
Trade Receivables	-	76.199.845			76.199.845	9
Financial Liabilities						
Financial Payables				102.342.439	102.342.439	8
Trade Payables				45.778.579	45.778.579	9

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31
DECEMBER 2016
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

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

Financial Instrument fair values determine as follows;

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

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

31.12.2016

<u>Financial Assets</u>	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>
Financial assets fair value differences reflected to income statement				
Borrowing Instruments Fund	1.076.191	1.076.191	-	-
Total	1.076.191	1.076.191	-	-

31.12.2015

None.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

41. POST BALANCE SHEET EVENTS

31.12.2016:

- As at 31 December 2016, TL 4.297 severance pay ceiling has been increased to TL 4.426 to be effective from 1 January 2017.
- Third coupon payment amounting to TL 1.259.172 made on 07.02.2017 regarding TRSKTMR51711 ISIN coded Private Sector Bond amounting to TL 36.000.000 and 365 days maturity which was issued on 09.05.2016.
- Second coupon payment amounting to TL 422.244 made on 08.02.2016 regarding TRSKTMR81718 ISIN coded Private Sector Bond amounting to TL 12.000.000 and 365 days maturity which was issued on 10.08.2016.
- The company issued bond which has TL 50.000.000 par value, 365 days maturity, TRSKTMR31812 ISIN code to the qualified investors on 06.03.2017.

31.12.2015:

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

42. DISCLOSURE OF OTHER MATTERS

None (31.12.2015: None).