KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2016 AND
INDEPENDENT
AUDITORS REPORT

(Convenience Translation of the Financial
Statements Originally Issued in Turkish)

(CONVENIENCE TRANSLATION OF INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Klimasan Klima Sanayi ve Ticaret A.Ş.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Klimasan Klima Sanayi ve Ticaret A.Ş. ("the Company") and its subsidiary (together will be referred as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Turkish Accounting Standards ("TAS"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Independent Auditing Standards which is a part of 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Klimasan Klima Sanayi ve Ticaret A.Ş. and its subsidiary as at 31 December 2016, and of its their financial performance and its their cash flows for the year then ended in accordance with Turkish Accounting Standards.

Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 398 of the Turkish Commercial Code No. 6102 ("TCC"), the auditor's report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 21 February 2017.

In accordance with paragraph four of the Article 402 of TCC, nothing has come to our attention that may cause us to believe that the Group's set of accounts and financial statements prepared for the period 1 January-31 December 2016 does not comply with TCC and the provisions of the Company's articles of association in relation to financial reporting.

In accordance with paragraph four of the Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Gülin Günce, SMMM
Partner

İzmir, 2 March 2017 (Completion date of audit procedures limited to the change in the revenue in Note 18)

İzmir, 21 February 2017 (Auditor’s opinion date except for Note 18)

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KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT
31 DECEMBER 2016

(All amounts expressed in Turkish Lira ("TL"))

ASSETS	Notes	Current Period 31 December 2016	Prior Period 31 December 2015
Current Assets		**472.741.216**	**342.284.854**
Cash and Cash Equivalents	30	71.070.817	100.314.608
Financial Investments	26	240.915.267	103.733.436
Trade Receivables		82.232.607	60.546.220
Trade Receivables from Related Parties	*4,5*	*6.434.729*	*9.040.618*
Trade Receivables from Third Parties	*5*	*75.797.878*	*51.505.602*
Other Receivables		19.463.194	16.180.151
Other Receivables from Related Parties	*4,6*	*18.043.232*	*14.770.608*
Other Receivables from Third Parties	*6*	*1.419.962*	*1.409.543*
Inventories	7	43.046.532	49.081.046
Derivative Financial Instruments	25	-	696.400
Prepaid Expenses	8	10.372.367	2.844.871
Current Tax Assets	23	3.030.849	73.410
Other Current Assets	16	2.609.583	8.814.712
Non-current Assets		**70.490.257**	**57.630.520**
Trade Receivables		40.824	-
Trade Receivables from Third Parties	*5*	*40.824*	-
Other Receivables		12.564	12.564
Other Receivables from Third Parties	*6*	*12.564*	*12.564*
Property, Plant and Equipment	9	50.754.656	39.038.483
Intangible Assets	10	15.255.737	12.002.053
Prepaid Expenses	8	240.317	1.318.584
Deferred Tax Assets	23	4.186.159	5.258.836
TOTAL ASSETS		**543.231.473**	**399.915.374**

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

KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT
31 DECEMBER 2016

(All amounts expressed in Turkish Lira ("TL"))

LIABILITIES	**Notes**	**Current Period 31 December 2016**	**Prior Period 31 December 2015**
Short-term Liabilities		**192.290.930**	**130.841.732**
Short-term Portion of Long-term Borrowings	26	120.612.488	67.468.363
Trade Payables		59.965.313	52.789.830
Trade Payables to Related Parties	*4,5*	*142.210*	*65.498*
Trade Payables to Third Parties	*5*	*59.823.103*	*52.724.332*
Payables Related to Employee Benefits	14	2.897.577	1.744.937
Other Payables		204.832	207.854
Other Payables to Third Parties	*6*	*204.832*	*207.854*
Deferred Income	8	1.194.485	1.831.948
Derivative Financial Instruments	25	493.869	1.555.533
Short-term Provisions		6.230.604	4.574.022
Short-term Provisions for Employee Benefits	*14*	*2.749.131*	*2.365.324*
Other Short-term Provisions	*12*	*3.481.473*	*2.208.698*
Other Current Liabilities	16	691.762	669.245
Non-current Liabilities		**219.600.369**	**176.431.161**
Long-term Borrowings	26	214.676.800	172.294.086
Other Liabilities		28.845	30.845
Other Payables to Third Parties	*6*	*28.845*	*30.845*
Long-term Provisions		4.894.724	4.106.230
Long-term Provisions for Employee Benefits	*14*	*4.894.724*	*4.106.230*
EQUITY		**131.340.174**	**92.642.481**
Share Capital	17	33.000.000	33.000.000
Adjustments to Share Capital	17	980.882	980.882
Restricted Reserves Appropriated from Profit	17	4.184.074	2.829.996
Other Comprehensive Income that will not be Classified Subsequently to Profit or Loss		228.305	-
Foreign Currency Translation Differences		*228.305*	*-*
Other Comprehensive Income that will not be Classified Subsequently to Profit or Loss		(2.977.566)	(2.910.635)
Loss on Remeasurement of Defined Benefit Plans		*(2.977.566)*	*(2.910.635)*
Retained Earnings		55.915.527	36.851.242
Net Profit for the Year		40.008.952	21.890.996
TOTAL LIABILITIES AND EQUITY		**543.231.473**	**399.915.374**

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

KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts expressed in Turkish Lira ("TL"))

	Notes	Current Period 1 January 2016- 31 December 2016	Prior Period 1 January 2015- 31 December 2015
Revenue	18	337.777.906	267.094.234
Cost of Sales (-)	18	(266.786.869)	(209.932.396)
GROSS PROFIT		**70.991.037**	**57.161.838**
General Administrative Expenses (-)	19	(12.276.303)	(9.856.471)
Marketing Expenses (-)	19	(25.645.624)	(17.078.070)
Research and Development Expenses (-)	19	(4.049.488)	(3.178.775)
Other Income From Operating Activities	20	6.025.749	10.496.733
Other Expenses From Operating Activities (-)	20	(2.195.444)	(729.289)
OPERATING PROFIT		**32.849.927**	**36.815.966**
Income From Investing Activities	21	57.124.496	38.625.954
Expenses From Investing Activities (-)	21	(3.488.175)	(16.603.787)
OPERATING PROFIT BEFORE FINANCE EXPENSE		**86.486.248**	**58.838.133**
Finance Expenses	22	(43.253.086)	(34.482.651)
PROFIT BEFORE TAX		**43.233.162**	**24.355.482**
Tax Expense		(3.224.210)	(2.464.486)
- Current Tax Expense	*23*	*(2.134.800)*	*(4.147.526)*
- Deferred Tax (Expense) / Income	*23*	*(1.089.410)*	*1.683.040*
PROFIT FOR THE YEAR		**40.008.952**	**21.890.996**
Earnings per share	24	**1,2124**	**0,6634**
OTHER COMPREHENSIVE INCOME / (LOSS)		**161.374**	**(1.286.261)**
Items that will not be Reclassified Subsequently to Profit or Loss		**(66.931)**	**(1.286.261)**
Loss on Remeasurement of Defined Benefit Plans		(83.664)	(1.607.826)
Deferred Tax Profit Related to Other Comprehensive Income	23	16.733	321.565
Items that will be Reclassified Subsequently to Profit or Loss		**228.305**	**-**
Foreign Currency Translation Differences		228.305	-
TOTAL COMPREHENSIVE INCOME		**40.170.326**	**20.604.735**

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

KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts expressed in Turkish Lira ("TL"))

			Accumulated Other Comprehensive Income or Expenses that will not be Reclassified Subsequently to Profit or Loss	Accumulated Other Comprehensive Income or Expenses that will be Reclassified Subsequently to Profit or Loss		Retained Earnings		
	Share Capital	Adjustments to Share Capital	Accumulated loss on Remeasurement of Defined Benefit Plans	Foreign Currency Translation Reserve	Reserves Appropriated from Profit	Prior Year's Profit	Net Profit for the Year	Total Equity
Balance at 1 January 2015	**33.000.000**	**980.882**	**(1.624.374)**	**-**	**2.150.385**	**26.904.389**	**10.626.464**	**72.037.746**
Transfers	-	-	-	-	-	10.626.464	(10.626.464)	-
Transfer to the Legal Reserves	-	-	-	-	679.611	(679.611)	-	-
Total Comprehensive Income	-	-	(1.286.261)	-	-	-	21.890.996	**20.604.735**
Balance at 31 December 2015	**33.000.000**	**980.882**	**(2.910.635)**	**-**	**2.829.996**	**36.851.242**	**21.890.996**	**92.642.481**
Balance at 1 January 2016	**33.000.000**	**980.882**	**(2.910.635)**	**-**	**2.829.996**	**36.851.242**	**21.890.996**	**92.642.481**
Transfer of Net Profit for the Year	-	-	-	-	-	21.890.996	(21.890.996)	-
Transfer to the Legal Reserves	-	-	-	-	1.354.078	(1.354.078)	-	-
Effect of Business Combinations Involving Entities Under Common Control (Note 3)	-	-	-	-	-	585.274	-	**585.274**
Dividends	-	-	-	-	-	(2.057.907)	-	**(2.057.907)**
Total Comprehensive Income	-	-	(66.931)	228.305	-	-	40.008.952	**40.170.326**
Balance at 31 December 2016	**33.000.000**	**980.882**	**(2.977.566)**	**228.305**	**4.184.074**	**55.915.527**	**40.008.952**	**131.340.174**

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

KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts expressed in Turkish Lira ("TL"))

	Notes	Current Period 1 January 2016- 31 December 2016	Prior Period 1 January 2015- 31 December 2015
A. Cash Flows From Operating Activities			
Profit for the Year		40.008.952	21.890.996
Adjustments To Reconcile Profit for the Year			
Adjustments Related to Depreciation and Amortization	9,10	8.707.892	7.588.216
Adjustment Related to Impairments (Reversal)			
Adjustment Related to Impairment for Inventories	*7*	561.054	(112.296)
Adjustment Related to Impairment for Receivables	*5*	634.773	74.871
Adjustments Related to Provisions			
Adjustment Related to Provision for Employement Termination Benefits	*14*	4.605.136	2.911.704
Adjustments Related to Legal Provision	*12*	540.566	57.606
Adjustment Related to Warranty Provision	*12*	1.106.125	476.154
Adjustment Related to Other Provisions	*3,12*	(328.503)	121.518
Adjustment Related to Interest Income and Expenses			
Adjustment Related to Interest Income	*21*	(12.238.972)	(11.717.533)
Adjustment Related to Interest Expenses	*22*	8.565.828	8.292.506
Financial Income from Terms of Sales	*20*	565.437	35.669
Deferred Financial Expense from Term Receives	*20*	68.982	(77.327)
Adjustment Related to Unrealized Foreign Currency Exchange Differences		30.527.351	37.172.903
Adjustment Related to Fair Value (Gains) / Losses			
Adjustment Related to Fair Value of Financial Instruments (Gain)/ Losses	*21*	(16.680.095)	15.680.228
Adjustment Related to Fair Value of Derivative Instrument (Gain) / Losses	*25*	(365.264)	859.133
Adjustment Related to Tax Expense	23	3.224.210	2.464.486
Adjustment Related to Gain on Disposal of Non-current Assets			
Adjustment Related to Gain on Disposal of Property, Plant and Equipment	*20*	(160.425)	(750)
		29.334.095	63.827.088
Changes in the Working Capital			
Adjustment Related to Decrease / (Increase) in Inventories	3,7	6.350.418	(10.044.469)
Adjustment Related to Increase in Trade Receivables	3,5	(16.239.764)	(13.802.029)
Adjustment Related to Decrease / (Increase) Other Receivables from Operations	3,6,16	3.036.629	(11.281.369)
Adjustment Related to Increase in Trade Payables	3,5	25.901	12.457.685
Increase in Prepaid Expenses	8	(6.449.229)	(1.280.453)
Decrease in Deferred Income	3,8	(1.240.716)	(3.472.919)
Adjustment Related to Increase in Other Payables for Operations		1.156.290	819.592
		(13.360.471)	(26.603.962)
Cash generated from operations			
Dividends Paid	17	(2.057.907)	-
Payments for Employee Termination Benefits	14	(3.516.499)	(2.100.644)
Payments for Other Provisions	12	(433.810)	(222.710)
Tax Payments	23	(5.092.239)	(4.220.936)
		44.882.121	52.569.832

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

(All amounts expressed in Turkish Lira ("TL"))

	Notes	Current Period 1 January 2016- 31 December 2016	Prior Period 1 January 2015- 31 December 2015
B. Cash Flows From Investing Activities			
Proceeds From Acquisition of Subsidiary which Control is Obtained	3	992.211	-
Gain on Sale of Property, Plant and Equipment and Intangible Assets			
Gain on Sale of Property, Plant and Equipment		215.622	38.414
Payments for Acquisition of Property, Plant and Equipment and Intangible Assets			
Payments for Acquisition of Property, Plant and Equipment	*9*	(16.906.139)	(5.629.176)
Payments for Acquisition of Intangible Assets	*10*	(6.826.807)	(5.062.549)
Cash Outflow for Aquisition of Shares in Other Entities or Shares in Funds or Debt Instruments	21,26	(120.501.736)	(1.221.947)
Interest Received	21	12.238.972	11.717.533
		(130.787.877)	(157.725)
C. Cash Flows From Financing Activities			
Proceeds From Borrowings			
Cash Inflow From Borrowings		*162.546.988*	*70.953.500*
Cash Outflow of Borrowings			
Cash Outflows on Repayment of Borrovings		*(108.470.681)*	*(80.664.578)*
Interest Paid		(7.668.177)	(6.795.119)
		46.408.130	(16.506.197)
Increase / (Decrease) in Cash and Cash Equivalents Before the Effect of Foreign Exchange Rate Changes (A+B+C)		(39.497.626)	35.905.910
D. Effects of Foreign Exchange Rate Changes on Cash and Cash Equivalents		10.253.835	(7.947.455)
Net (Decrease) / Increase on Cash and Cash Equivalents (A+B+C+D)		(29.243.791)	27.958.455
E. Cash and Cash Equivalents at the Begining of the Year	30	100.314.608	72.356.153
Cash and Cash Equivalents at the End of the Year (A+B+C+D+E)	30	71.070.817	100.314.608

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

1. ORGANIZATION AND OPERATIONS OF THE GROUP

Klimasan Klima Sanayi ve Ticaret A.Ş. (the “Company”) and its subsidiary operate in the production and sales of industrial type coolers and freezers both in foreign and domestic markets. The main product range items of the Group are coolers of soft drinks, beer and beverages, and fridges for frozen foods and ice cream. The Company was established on 7 January 1969 in İzmir and current headquarters is located in Manisa.

The Company is registered in Turkey. The address of its registered office is Manisa OSB I. Kısım Keçiliköy OSB Mh. Cumhuriyet Cad. No: 1 45030 Yunusemre, Manisa.

The immediate parent and ultimate controlling party of the Group is Metalfrio Solutions Soğutma Sanayi ve Ticaret A.Ş.. The ultimate shareholder of the Group is Metalfrio Solutions S.A.. The Company is registered to Capital Markets Board (“CMB”) and its shares are traded on Istanbul Stock Exchange A.Ş. (“ISE”) since 1997. As at 31 December 2016, 39% portion of its shares is listed in ISE.

As of 31 December 2016, the average personnel number of the Group is 1.070 (2015:884).

The Company’s Subsidiary

The Company acquired 100% of ‘Metalfrio Solutions Poland Spolka z ograniczona odpowiedzialnoscia’ (“Metalfrio Solutions Poland SP. Z.o.o.”) as of 1 April 2016 which perform sale and marketing of Klimasan’s products in Poland from its ultimate shareholder Metalfrio Solutions Soğutma Sanayi ve Ticaret A.Ş. for a consideration of EUR 176.807 (TL 567.374) considering the organizational efficiencies.

Approval of financial statements

Board of Directors has approved the consolidated financial statements and delegated authority for publishing it on 21 February 2017. General Assembly has the authority to modify the consolidated financial statements.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Basis of Preparation

Statement of Compliance

The accompanying financial statements are prepared in accordance with the requirements of Capital Markets Board ("CMB") Communiqué Serial II, No: 14.1 "Basis of Financial Reporting in Capital Markets", which were published in the Official Gazette No:28676 on 13 June 2013. The accompanying financial statements are prepared based on the Turkish Accounting Standards and interpretations ("TAS") that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority ("POA") under Article 5 of the Communiqué.

The financial statements and disclosures have been prepared in accordance with the resolution of POA dated 7 June 2013 about the "illustrations of financial statements and application guidance".

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Currency Used

The individual financial statements of the Group are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The results and financial position of each entity are expressed in TL, which is the functional currency of the Company, and the presentation currency for the financial statements.

Preparation of Financial Statements in Hyperinflationary Economies

In accordance with the communique issued by CMB that Companies operates in Turkey and prepare their financial statements applying Turkish Accounting Standards, it is decided not to apply inflation accounting from 1 January 2005 which is published on 17 March 2005 numbered 11/367. Accordingly, as of 1 January 2005 No: 29 "Financial reporting in Hyperinflationary Economies" ("TAS 29") was not applied.

Comparative Information and Restatement of Prior Period Financial Statements

Consolidated financial statements of the Group have been prepared comparatively with the prior year in order to give information about financial position and performance trends. Comparative data are re-classified whenever required and material differences are disclosed in order to comply with the presentation of the current period financial statements. In the current period, the Group has made certain reclassifications to the previous period financial statements. The nature and amount of the reclassifications is explained below:

- The Group presented "Purchase Discount" amounting to TL 374.135 under revenue in profit or loss and other comprehensive income statement as of 31 December 2015. In the current year, the Group management has classified discounts under "Cost of Sales" account.
- The Group presented "Leasehold Improvements" with a net book value of TL 65.801 under intangible assets in the statement of financial position as of 31 December 2015. In the current year, the Group has classified "Leasehold Improvements" as property, plant and equipment.
- The Group presented "Current Tax Assets" amounting to TL 73.410 in the statement of financial position as of 31 December 2015 in the account of other current assets. In the current year, the Group management has classified this asset under "Current Tax Assets" account in the statement of financial position.

(All amounts expressed in Turkish Lira ("TL"))

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Preparation (cont'd)

Comparative Information and Adjustment of Prior Period Financial Statements (cont'd)

- The Group presented "Discount Expenses" amounting to TL 35.669 in profit or loss and other comprehensive income table as of 31 December 2015, as other expense from main operations. In the current year, the Group management has shown this amount net of other operating income.

- The Group presented the "Customer Logistic Service Provision" amounting to TL 87.220 in the statement of financial position as of 31 December 2015 under provisions, contingent assets and liabilities. In the current year, the Group has classified this provision in the account of trade payables.

Basis of Consolidation

Details of the Group's subsidiary as of 31 December 2016 and 31 December 2015 are as follows:

			Group's share in capital and voting rights ratio (%)	
Subsidiaries	Location of Establishment and Operation	Functional Currency	31 December 2016	31 December 2015
Metalfrio Solutions Poland SP. Z.o.o.	Polonya	Euro	100%	-

The consolidated financial statements incorporate the financial statements which are controlled by the Group and its subsidiary. Control is achieved when the Company:

- has power over of the invested company or asset,
- is exposed, or has rights, to variable returns from its involvement with the investee, and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiary is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If necessary, adjustments were made on the financial statements of the subsidiary to bring their accounting policies into line with the Group's accounting policies.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Preparation (cont'd)

Basis of Consolidation (cont'd)

Changes in the Group's ownership interests in existing subsidiary

All intercompany assets and liabilities, equity balances, income and expenses and all cash flow transaction between the related parties are eliminated in consolidation.

Changes in the Group's ownership interests in subsidiary that do not result in the Group losing control over the subsidiary is accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable TAS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under TAS 39 Financial Instruments: Recognition and Measurement, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Combinations of entities or businesses under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are excluded from the scope of TFRS 3 "Business Combinations" ("TFRS 3"). In business combinations under common control, assets and liabilities subject to business combination are accounted for at their carrying value in consolidated financial statements in accordance with the bulletin issued by the POA on 21 July 2013. Statements of profit or loss are consolidated starting from the year that the comparative financial statements are presented and financial statements of previous financial years are restated. Any positive or negative goodwill arising from such business combinations is not recognized in the consolidated financial statements. The residual balance is calculated by netting off investment in subsidiary and the share acquired in subsidiary's equity accounted for as "Effect of Business Combinations Involving Entities under Common Control" within equity.

The Company is acquired 100% of Metalfrio Solutions Poland SP. Z.o.o. which sales and marketing of Klimasan's products in Poland firm its ultimate shareholder Metalfrio Solutions Soğutma Sanayi ve Ticaret A.Ş. for a consideration of EUR 176.807 (TL 567.374) considering the organizational efficiencies. This acquisition is considered within the scope of business combinations involving entities under common control but since the acquired company's financial impact to the acquiree's financial statements is not significant the previous year financial statements is not restated and the difference between the Company's share in the subsidiary's equity and the total consideration amounting to TL 585.274 is recognized directly under equity.

(All amounts expressed in Turkish Lira ("TL"))

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.2 Changes in Accounting Policies

Significant changes to the accounting policies and significant accounting errors identified are applied retrospectively and the previous period's financial statements are related accordingly. The Group has not made any significant changes in its accounting policies in the current period.

2.3 Changes in Accounting Estimates and Errors

If the application of changes to the accounting estimates affects the financial results of a specific year, the accounting estimate change is applied in that specific year, if they affect the financial results of current and following years; the accounting policy estimate is applied prospectively in the year in which such change is made. The Group did not have any major changes in the accounting estimates during the current period.

Identified significant accounting errors are applied retrospectively and the previous year's financial statements are restated accordingly,

2.4 New and Revised Turkish Accounting Standards

a) Amendments to TAS affecting amounts reported and/or disclosures in the consolidated financial statements

None.

b) New and revised TAS applied with no material effect on the consolidated financial statements

Amendments to TAS 16 and TAS 38	*Clarification of Acceptable Methods of Depreciation and Amortization* [1]
Amendments to TAS 16 and TAS 41 and amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40	*Agriculture: Bearer Plants* [1]
Amendments to TFRS 11 and TFRS 1	*Accounting for Acquisition of Interests in Joint operations* [1]
Annual Improvements to 2011-2013 Cycle	*TFRS 1* [2]
Amendments to TAS 1	*Disclosure Initiative* [2]
Annual Improvements to 2012-2014 Cycle	*TFRS 5, TFRS 7, TMS 34, TMS 19* [2]
Amendments to TAS 27	*Equity Method in Separate Financial Statements* [2]
Amendments to TFRS 10 and TAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [2]
Amendments to TFRS 10, TFRS 12 and TAS 28	*Investment Entities: Applying the Consolidation Exception* [2]
TFRS 14	*Regulatory Deferral Accounts* [2]

[1] Effective for annual periods beginning on or after 31 December 2015.
[2] Effective for annual periods beginning on or after 1 January 2016.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.4 New and Revised Turkish Accounting Standards (cont'd)

b) New and revised TAS applied with no material effect on the consolidated financial statements (cont'd)

Amendments to TAS 16 and TAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization*

This amendment clarifies that that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment, and introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendment also adds guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

Amendments to TAS 16 and TAS 41 and Amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40 *Agriculture: Bearer Plants*

This amendment include 'bearer plants' within the scope of TAS 16 rather than TAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with TAS 16. The amendment also introduces a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales, and clarifies that produce growing on bearer plants remains within the scope of TAS 41.

Amendments to TAS 16 and TAS 41 also led to amendments in related provisions of TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40, respectively.

Amendments to TFRS 11 and TFRS 1 *Accounting for Acquisition of Interests in Joint operations*

This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to:

- apply all of the business combinations accounting principles in TFRS 3 and other TAS, except for those principles that conflict with the guidance in TFRS 11,
- disclose the information required by TFRS 3 and other TAS for business combinations.

Amendments to TFRS 11 also led to amendments in related provisions of TFRS 1.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.4 New and Revised Turkish Accounting Standards (cont'd)

b) New and revised TAS applied with no material effect on the consolidated financial statements (cont'd)

Annual Improvements 2011-2013 Cycle

TFRS 1: Clarify which versions of TAS can be used on initial adoption (amends basis for conclusions only).

Amendments to TAS 1 *Disclosure Initiative*

This amendment addresses perceived impediments to preparers exercising their judgment in presenting their financial reports.

Annual Improvements 2012-2014 Cycle

TFRS 5: Adds specific guidance in TFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

TFRS 7: Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

TAS 34: Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference.

Annual Improvements to 2012-2014 Cycle also led to amendments in related provisions of TAS 19.

Amendments to TAS 27 *Equity Method in Separate Financial Statements*

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

Amendments to TFRS 10 and TAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

(All amounts expressed in Turkish Lira ("TL"))

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.4 New and Revised Turkish Accounting Standards (cont'd)

b) New and revised TAS applied with no material effect on the consolidated financial statements (cont'd)

Annual Improvements 2012-2014 Cycle

Amendments to TFRS 10, TFRS 12 and TAS 28 *Investment Entities: Applying the Consolidation Exception*

This amendment addresses issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by TFRS 12.

TFRS 14 *Regulatory Deferral Accounts*

TFRS 14 *Regulatory Deferral Accounts* permits an entity which is a first-time adopter of Turkish Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of TFRS and in subsequent financial statements.

TFRS 14 also led to amendments in related provisions of TFRS 1.

c) New and revised TAS in issue but not yet effective

The Group has not applied the following new and revised TAS that have been issued but are not yet effective:

TFRS 9	*Financial Instruments*
TFRS 15	*Revenue from Contracts with Customers* [1]

[1] Effective for annual periods beginning on or after 1 January 2018.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.4 New and Revised Turkish Accounting Standards (cont'd)

c) New and revised TAS in issue but not yet effective (cont'd)

TFRS 9 *Financial Instruments*

TFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. TFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

The revised version of the TFRS 9 standard issued by the KGK in January 2017 includes a) impairment requirements for financial assets and b) "financial liabilities at fair value through other comprehensive income", as well as limited changes to the classification and measurement requirements issued.

TFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Early application is permitted provided that the first application date is before February 1, 2015.

TFRS 15 *Revenue from Contracts with Customers*

TFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contracts,
- Recognize revenue when the entity satisfies a performance obligation.

The Group evaluates the effects of these standards, amendments and improvements on the consolidated financial statements.

2.5 Summary of Significant Accounting Policies

Related Parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to as the 'reporting entity')

(a) A person or a close member of that person's family is related to a reporting entity if that person:

(i) has control or joint control over the reporting entity;
(ii) has significant influence over the reporting entity; or
(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Related Parties (cont'd)

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
(iii) Both entities are joint ventures of the same third party.
(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
(v) The entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
(vi) The entity is controlled or jointly controlled by a person identified in (a).
(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated or realized customer returns, discounts, commissions, rebates, and taxes related to sales.

Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

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

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Revenue (cont'd)

Dividend and interest income:

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a weighted average basis. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale. When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in statement of profit and loss in the period the write-down or loss occurred. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the original write-down.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated and carried at cost less accumulated impairment.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees. Borrowings costs are all capitalized to the extent that relates to qualifying assets. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost or valuation of assets, other than freehold land and properties under construction, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Property, Plant and Equipment (cont'd)

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible Assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Intangible Assets (cont'd)

Internally-generated intangible assets – research and development expenditure (cont'd)

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives.

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred.

Computer software development costs recognized as assets are amortized over their estimated useful lives.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Impairment of Tangible and Intangible Assets (cont'd)

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

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

Borrowing Costs

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

When the Group borrows funds specifically for the purpose of the qualifying assets, the amount of borrowing costs eligible for capitalization is the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. General borrowings of the Group are capitalized to the applicable qualifying assets based on a capitalization rate. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

Financial Instruments

<u>Financial assets</u>

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Investments are recognized and derecognized on a trade date where the purchase or sale of an investments under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Financial Instruments (cont'd)

Financial assets (cont'd)

Financial assets at FVTPL

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. The related financial assets are carried at fair value and the resulting gains and losses are recognized in the profit or loss table.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

Available-for-sale financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

The fair value of available-for-sale monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

AFS equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Financial Instruments (cont'd)

Financial assets (cont'd)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash, and others) are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

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 3 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.

Derecognition of financial assets

The Group recognizes financial assets or liabilities in the event of being a party of an agreement of financial instrument. The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received. The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Financial liabilities

Financial liabilities are initially measured at fair value. Financial liabilities. Non-derivative financial instruments which are not recognized or designated as financial instruments at fair value through profit or loss are recognized initially at fair value plus any directly attributable transaction costs. Financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Financial Instruments (cont'd)

Financial liabilities (cont'd)

Derivative Financial Instruments

The Group enters futures agreements in foreign exchange markets. As the futures agreements that are entered in order to protect from risk according to the Group's risk management policies do not meet the criterion set by TAS 39 (Valuation of Financial Instruments) for hedge accounting, they are considered trading derivative transactions in financial tables. Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently premeasured to their fair value at the end of each reporting period. Increase and decrease in fair values of derivative instruments that do not meet the criterion for hedge accounting are directly associated with profit or loss statement.

If possible, fair values are determined by current prices in active markets, else discounted cash flows or option pricing models are used as appropriate. Derivatives with a positive fair value are assets, while derivatives with a negative fair value are liabilities in the balance sheet.

Business Combinations

The acquisition of subsidiary and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquire and the equity interests issued by the Group in exchange for control of the acquire. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- Liabilities or equity instruments related to share-based payment arrangements of the acquire or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquire are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and

- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Business Combinations (cont'd)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquire, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another TAS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed 1 year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with TAS 39, or TAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquire is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquire prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Effect of Foreign Currency Transactions

Foreign currency transactions

The functional currency of Metalfrio Solutions Poland SP. Z.o.o. is Euro. For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in TL, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated

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

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies); and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

Financial Statements of the Subsidiary Operating in Abroad

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into TL using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Earnings per Share

Earnings per share disclosed in the consolidated statement of profit or loss statement are determined by dividing net earnings by the weighted average number of shares that have been outstanding during the related period.

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

Events after the Reporting Period

Events after the reporting period are those events that occur between the reporting date and the date when the financial statements are authorized for issue, even if they occur after an announcement related with the profit for the year or public disclosure of other selected financial information.

The Group adjusts the amounts recognized in its financial statements if adjusting events occur after the reporting date.

Government Grants and Incentives

Government incentives are not recognized unless there is reasonable assurance that the Group fulfill the necessary conditions and incentive will be obtained.

Government incentives are recognized systematically in profit or loss in the periods the expenses covered by the incentive is recognized. Government incentives, which are a financing instrument, should be recognized as unearned income in the statement of financial position (balance sheet) rather than being recognized in profit or loss in order to clarify the expenditure item that is financed and should be systematically reflected in profit or loss during the economic life of the related assets.

Government incentives granted in order to provide emergency financial support without incurring costs or expenses previously incurred or recognized in the future are recognized in profit or loss when they become recoverable.

The benefit of the loan, which is taken from the government at a lower rate than the market interest rate, is considered as state incentive. The benefit generated by the lower interest rate is measured as the difference between the gain on the initial book value of the loan.

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2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Provisions, Contingent Assets and Liabilities

Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Warranties

At the date of sale, provisions related to Group's warranty costs are recognized according to the estimates of the management about the expenses to be incurred.

Taxation and Deferred Income Tax

Turkish Tax Legislation does not permit a parent group and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Income tax expense is the total of current tax and deferred tax expense.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and it excludes items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting.

Deferred tax

Deferred tax liability or asset is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which are used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

Taxation and Deferred Income Tax (cont'd)

Deferred tax (cont'd)

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Employee Benefits

Retirement benefits:

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per TAS 19 (Revised) *Employee Benefits* ("TAS 19").

The retirement benefit obligation recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation. The actuarial gains and losses are recognized in other comprehensive income.

Statement of Cash Flows

In the statement of cash flows, cash flows are classified according to operating, investing and financing activities.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.6 Summary of Significant Accounting Policies (cont'd)

Share Capital and Dividends

Common shares are classified as equity. Dividends on common shares are recognized in equity in the period in which they are approved and declared.

2.6 Critical Accounting Judgments and Key Sources of Estimation Uncertainty

Critical judgments in applying the entity's accounting policies

In the process of applying the entity's accounting policies, which are described in Note 2.5, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements.

Useful lives of property, plant and equipment and scrap value

The Group reviews the estimated useful lives of its property, plant and equipment at the end of each reporting period. The Group takes into consideration the intended use of the property, plant and equipment, the advancement in technology related to the particular type of property, plant and equipment as well as other factors that may require management to extend or shorten the useful lives and the assets' related depreciation.

Warranty provision

Amounts recorded as provision are calculated according to the estimates about the expenses to be incurred considering risks and uncertainties about the liability. In this context, the Group reserves provisions for repair and maintenance expenses for the goods produced and sold, authorized service labor and part costs in the scope of warranty without payments by the customer, first maintenance costs undertaken by the Group in the light of estimates from prior data.

Provision for doubtful trade receivables

The Group reviews receivable for possible impairment. Provision for doubtful receivables is determined based on management's discretion according to volume of trade receivable, past experience, and general economic conditions. As 31 December 2016, the Group's doubtful trade receivables provision is TL 11.476.342 in the statement of financial position (31 December 2015: TL 9.348.760).

Deferred taxes

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Currently, there are deferred tax assets resulting from deductible temporary differences, all of which could reduce taxable income in the future. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized. The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. If based on the weight of all available evidence, it is the Group's belief that taxable profit will not be available sufficient to utilize some portion of these deferred tax assets, then some portion of or all of the deferred tax assets are not recognized. If future results of operations exceed the Group's current expectations, the existing unrecognized deferred tax assets may be recognized, resulting in future tax benefits.

(All amounts expressed in Turkish Lira ("TL"))

3. BUSINESS COMBINATIONS

Acquisition of subsidiary

The Company is acquired 100% of Metalfrio Solutions Poland SP Z.o.o. which sales and marketing of Klimasan's products in Poland firm its ultimate shareholder Metalfrio Solutions Soğutma Sanayi ve Ticaret A.Ş. for a consideration of EUR 176.807 (TL 567.374) considering the organizational efficiencies.

	Principal Activity	Date of Acquisition	Proportion of Interest Acquired (%)	Consideration Transferred
Metalfrio Solutions Poland SP. Z.o.o.	Industrial Type Cooler and Freezer Sales	1 April 2016	100	567.374
				567.374

Transferred price

	Metalfrio Solutions Poland SP. Z.o.o.
Cash	567.374
Total	567.374

Assets acquired and liabilities assumed at acquisition date

	Metalfrio Solutions Poland SP. Z.o.o.
Current Asset	**9.238.743**
Cash and Cash Equivalents	1.559.585
Trade Receivables	6.687.657
Trade Receivables from Related Parties	*6.687.657*
Other Receivables	114.543
Other Receivables from Third Parties	*114.543*
Inventories	876.958
Short - term Liabilities	**8.086.095**
Trade Payables	7.080.600
Trade Payables to Related Parties	*5.709.193*
Trade Payables to Third Parties	*1.371.407*
Payables of Employee Termination Benefits	13.845
Deferred Income	603.253
Short-term Provisions	388.397
Short-term Provisions	*388.397*
	1.152.648

3. BUSINESS COMBINATIONS (cont'd)

Acquisition of subsidiary (cont'd)

Goodwill

	Metalfrio Solutions Poland SP. Z.o.o.
Consideration transferred	567.374
Less: Fair value of identifiable net asset acquired	(1.152.648)
Bargain purchase gain	(585.274)

Net cash flow from acquisition of subsidiary

	2016
Consideration paid in cash	567.374
Less: Cash and cash equivalents acquired	(1.559.585)
	(992.211)

4. RELATED PARTY DISCLOSURES

Transactions between the Group and its subsidiary, which are related parties of the Group, have been eliminated during consolidation and are not disclosed in this note.

Trade receivables from related parties are mainly due from sale of goods and materials made in US Dollar and Euro and maturities are approximate 3-6 months.

Trade payables to related parties are mainly due to purchases of goods and services and maturity are approximate 1-3 months.

Balances between related parties in 31 December 2016 and 31 December 2015 are disclosed below:

	31 December 2016		
	Receivables		Payables
	Trade	Non-trade	Trade
P.T. Metalfrio Solutions Indonesia	3.807.816	-	-
LLC Klimasan Ukraine	1.580.397	-	-
OOO Metalfrio Solutions Russia	806.130		
Metalfrio Solutions Soğutma Sanayi ve Ticaret A.Ş.	168.767	18.043.232	78.568
Metalfrio Solutions Mexico S.A.Dec.V.	55.976	-	-
Metalfrio Solutions S.A. Brazil	15.643	-	-
Metalfrio Solutions A/S Denmark	-	-	63.642
	6.434.729	18.043.232	142.210

	31 December 2015		
	Receivables		Payables
	Trade	Non-trade	Trade
LLC Klimasan Ukraine	2.625.952	-	-
OOO Metalfrio Solutions Russia	2.437.807	-	18.414
P.T. Metalfrio Solutions Indonesia	1.845.490	-	-
Metalfrio Solutions Poland SP. Z.o.o.	1.635.823	-	-
OOO Klimasan Russia	374.358	-	-
Metalfrio Solutions Soğutma Sanayi ve Ticaret A.Ş.	90.842	14.770.608	-
Metalfrio Solutions A/S Denmark	21.403	-	47.084
Metalfrio Solutions Mexico S.A.Dec.V.	5.190	-	-
Metalfrio Solutions S.A. Brazil	2.183	-	-
P.T. Metalfrio Life Cycle Indonesia	1.570	-	-
	9.040.618	14.770.608	65.498

(All amounts expressed in Turkish Lira ("TL"))

4. RELATED PARTY DISCLOSURES (cont'd)

	1 January - 31 December 2016					
Transactions with related parties	Purchases	Sales	Interest income	Rent income	Comission expenses	Other
P.T. Metalfrio Solutions Indonesia	-	7.469.861	16.004	-	-	29.752
Metalfrio Solutions Poland SP. Z.o.o.(*)	169.517	4.379.852	-	-	-	32.573
OOO Metalfrio Solutions Russia	6.298	3.307.514	72.286	-	-	-
LLC Klimasan Ukraine	-	1.854.232	-	-	-	-
Metalfrio Solutions Mexico S.A.Dec.V.	-	84.008	-	-	-	38.187
Pt.Metalfrio Life Cycle Indonesia	-	23.476	-	-	-	-
Metalfrio Solutions S.A. Brazil	82	7.210	-	-	-	7.657
Metalfrio Solutions A/S Denmark	22.615	-	-	-	160.089	-
Metalfrio Solutions Soğutma Sanayi ve Ticaret A.Ş.	-	-	930.859	10.794	-	161.347
	198.512	17.126.153	1.019.149	10.794	160.089	269.516

(*) The table includes the sale and purchase transaction between 1 January 2016 – 31 March 2016 as the Metalfrio Solution SP Z.o.o's 100% of shares were acquired on 1 April 2016 by the Company.

(All amounts expressed in Turkish Lira ("TL"))

4. RELATED PARTY DISCLOSURES (cont'd)

	1 January - 31 December 2015					
Transactions with related parties	Purchases	Sales	Interest income	Rent income	Comission expenses	Other
P.T. Metalfrio Solutions Indonesia	-	9.162.231	59.102	-	-	220
OOO Metalfrio Solutions Russia	143.367	7.804.518	31.345	-	-	205.871
Metalfrio Solutions Poland SP. Z.o.o.	-	5.612.284	67.265	-	-	1.741
LLC Klimasan Ukraine	-	467.053	51.160	-	-	29.990
Pt. Metalfrio Life Cycle Indonesia	-	41.587	-	-	-	-
Metalfrio Solutions A/S Denmark	13.091	2.892	-	-	211.301	1.494
Metalfrio Solutions S.A. Brazil	6.701	283	-	-	-	5.100
Metalfrio Solutions Mexico S.A.Dec.V.	-	-	-	-	-	5.190
Metalfrio Solutions Soğutma Sanayi ve Ticaret A.Ş.	-	-	590.314	6.000	-	197.743
	163.159	23.090.848	799.186	6.000	211.301	447.349

(All amounts expressed in Turkish Lira ("TL"))

4. RELATED PARTY DISCLOSURES (cont'd)

Non-trade Transactions:

Non-trade receivables from related parties arise from financial transactions. For non-trade receivables related parties, effective market interest rate is used. The interest rate applied in 2016 is 4% (2015: 4%).

Details of loans to related parties as at 31 December 2016 and 31 December 2015 are disclosed below:

31 December 2016	Original Currency	Maturity	Interest Rate	Short-term Debt
Loans provided to related parties:				
Metalfrio Solutions Soğutma ve Ticaret A.Ş.	US Dollar	365 days	5%	5.000.000
				5.000.000

31 December 2015	Original Currency	Maturity	Interest Rate	Short-term Debt
Loans provided to related parties:				
Metalfrio Solutions Soğutma ve Ticaret A.Ş.	US Dollar	181 days	4%	5.000.000
				5.000.000

Compensation of key management personnel

Key management personnel consists of members of Board of Directors and members of Executive Board. Compensation to key management include benefits such as salaries, bonus, health insurance and transportation. Compensation to key management personnel during the year are disclosed below:

	31 December 2016	31 December 2015
Salaries and other short-term benefits	5.178.947	4.237.506
Post-employment benefits	121.681	97.004
	5.300.628	4.334.510

(All amounts expressed in Turkish Lira ("TL"))

5. TRADE RECEIVABLES AND PAYABLES

a) Trade Receivables

The details of the Group's trade receivables as of 31 December 2016 and 31 December 2015 are as follows:

Short-term Trade Receivables	31 December 2016	31 December 2015
Trade receivables	76.406.065	54.221.315
Trade receivables from related parties (Note 4)	6.434.729	9.040.618
Notes receivable	11.716.178	6.920.809
Allowance on doubtful receivables (-)	(11.476.342)	(9.348.760)
Unaccrued finance expense on trade receivables (-)	(640.692)	(161.350)
Unaccrued finance expense on notes receivable (-)	(207.331)	(126.412)
	82.232.607	60.546.220

The average credit period on sales of goods is 76 days (31 December 2015: 72 days).

The details of the Group's long-term trade receivables as of 31 December 2016 and 31 December 2015 are as follows:

Long-term Trade Receivables	31 December 2016	31 December 2015
Notes receivable	46.000	-
Unaccrued finance expense on notes receivable (-)	(5.176)	-
	40.824	-

Explanations about the nature and level of foreign currency risks related to the Group's trade receivables are provided in Note 27.

Allowances for doubtful receivables are recognized against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty.

Movements on the Group's provision for allowance for doubtful receivables as of 31 December 2016 and 31 December 2015 are as follows:

Movement of allowance for doubtful receivables	2016	2015
Balance at 1 January	(9.348.760)	(8.285.413)
Period charge (Note 20)	(634.773)	(74.871)
Foreign currency exchange differences	(1.492.809)	(988.476)
Balance at 31 December	(11.476.342)	(9.348.760)

(All amounts expressed in Turkish Lira ("TL"))

5. TRADE RECEIVABLES AND PAYABLES (cont'd)

b) Trade Payables

The details of the Group's trade payables as of 31 December 2016 and 31 December 2015 are as follows:

Short-term Trade Payables	31 December 2016	31 December 2015
Trade payables	59.946.817	52.917.028
Trade payables to related parties (Note 4)	142.210	65.498
Unaccrued finance income for trade payables (-)	(123.714)	(192.696)
	59.965.313	52.789.830

As of reporting date, the Group does not have long-term trade payables.

Explanations about the nature and level of foreign currency risks related to the Group's trade payables are provided in Note 27.

The average credit period on trade payables is 76 days (31 December 2015: 80 days).

6. OTHER RECEIVABLES AND PAYABLES

a) Other Receivables

The details of the Group's other short and long-term receivables as of 31 December 2016 and 31 December 2015 are as follows:

Other Short-term Receivables	31 December 2016	31 December 2015
Receivables from related parties (Note 4)	18.043.232	14.770.608
Receivables from customs	812.631	840.952
Receivables from personnel	289.745	278.065
Other receivables	317.586	290.526
	19.463.194	16.180.151

Other Long-term Receivables	31 December 2016	31 December 2015
Guarantee and deposits given	12.564	12.564
	12.564	12.564

(All amounts expressed in Turkish Lira ("TL"))

6. OTHER RECEIVABLES AND PAYABLES (cont'd)

b) Other Payables

The details of the Group's other short-term payables as of 31 December 2016 and 31 December 2015 are as follows:

Other Short-term Payables	31 December 2016	31 December 2015
Other liabilities	204.832	207.854
	204.832	207.854

Other Long-term Payables	31 December 2016	31 December 2015
Guarantee and deposits received	28.845	30.845
	28.845	30.845

7. INVENTORIES

The details of the inventories as of 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
Raw materials	23.527.019	18.601.758
Finished goods	17.207.319	24.922.439
Work in progress	1.453.803	2.991.318
Other inventories	884.307	1.089.541
Trade goods	591.454	1.532.306
Allowance for impairment on inventory (-)	(617.370)	(56.316)
	43.046.532	49.081.046

The cost of inventories recognized as expense and included in cost of sales amounted to TL 205.154.976 (31 December 2015: TL 155.984.726).

The allowance for impairment on inventories of the Group is regarding to obsolete, scraped or slow moving items.

Movement of allowance for impairment on inventory	2016	2015
Balance at 1 January	(56.316)	(168.612)
(Charge) / reversal for the year	(561.054)	112.296
Balance at 31 December	(617.370)	(56.316)

(All amounts expressed in Turkish Lira ("TL"))

8. PREPAID EXPENSES AND DEFERRED INCOME

Short-term Prepaid Expenses	31 December 2016	31 December 2015
Advances given to suppliers	9.184.921	2.232.682
Business advances given	764.993	277.230
Short-term prepaid expenses	422.453	334.959
	10.372.367	2.844.871

Long-term Prepaid Expenses	31 December 2016	31 December 2015
Advances given for fixed asset purchases	227.108	1.318.584
Long-term prepaid expenses	13.209	-
	240.317	1.318.584

Short-term Deferred Income	31 December 2016	31 December 2015
Advances received	1.194.485	1.750.309
Deferred income	-	81.639
	1.194.485	1.831.948

(All amounts expressed in Turkish Lira ("TL"))

9. PROPERTY, PLANT AND EQUIPMENT

The movement for property, plant and equipment as of 31 December 2016 is as follows:

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other tangible assets	Leasehold Improvements	Construction in progress	Total
Cost Value										
Opening balance as of 1 January 2016	2.437.563	592.167	18.537.960	58.797.956	1.658	11.164.884	579.653	79.980	109.704	92.301.525
Additions	-	15.455	39.333	3.497.854	-	1.849.082	78.761	18.000	11.407.654	16.906.139
Disposals	-	-	-	(855.304)	-	(616.321)	-	-	-	(1.471.625)
Transfers from construction in progress	-	2.911	4.195	3.720.578	-	7.156	-	-	(3.734.840)	-
Closing balance as of 31 December 2016	2.437.563	610.533	18.581.488	65.161.084	1.658	12.404.801	658.414	97.980	7.782.518	107.736.039
Accumulated Depreciation										
Opening balance as of 1 January 2016	-	(278.378)	(3.070.517)	(40.734.415)	(1.658)	(8.783.251)	(380.644)	(14.179)	-	(53.263.042)
Charge for the year	-	(40.022)	(464.239)	(3.725.238)	-	(828.480)	(46.880)	(29.910)	-	(5.134.769)
Disposals	-	-	-	806.862	-	609.566	-	-	-	1.416.428
Closing balance as of 31 December 2016	-	(318.400)	(3.534.756)	(43.652.791)	(1.658)	(9.002.165)	(427.524)	(44.089)	-	(56.981.383)
Net carrying value as of 31 December 2016	2.437.563	292.133	15.046.732	21.508.293	-	3.402.636	230.890	53.891	7.782.518	50.754.656

TL 4.031.263 (31 December 2015: TL 3.853.792) of depreciation and amortization expenses was allocated to cost of goods sold, TL 263.551 (31 December 2015: TL 238.946) to marketing expenses, TL 362.112 (31 December 2015: TL 294.736) to administrative expenses, TL 3.934.955 (31 December 2015: TL 3.088.191) to research and development expenses and TL 116.011 (31 December 2015: TL 112.551) to expenses which are capitalized in stocks.

As of 31 December 2016, the total amount of insurance on plant, property and equipment is TL 105.459.098 (31 December 2015: TL 72.387.638).

(All amounts expressed in Turkish Lira (“TL”))

9. PROPERTY, PLANT AND EQUIPMENT (cont’d)

The movement for property, plant and equipment as of 31 December 2015 is as follows:

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other tangible assets	Leasehold Improvements	Construction in progress	Total
Cost Value										
Opening balance as of 1 January 2015	2.437.563	583.224	18.513.810	54.484.727	1.658	10.159.365	512.733	-	25.527	86.718.607
Additions	-	8.943	24.150	1.458.550	-	966.053	66.920	16.150	3.088.410	5.629.176
Disposals	-	-	-	-	-	(8.594)	-	-	(37.664)	(46.258)
Transfers from construction in progress	-	-	-	2.854.679	-	48.060	-	63.830	(2.966.569)	-
Closing balance as of 31 December 2015	2.437.563	592.167	18.537.960	58.797.956	1.658	11.164.884	579.653	79.980	109.704	92.301.525
Accumulated Depreciation										
Opening balance as of 1 January 2015	-	(239.013)	(2.607.214)	(37.363.214)	(1.658)	(7.958.487)	(333.150)	-	-	(48.502.736)
Charge for the year	-	(39.365)	(463.303)	(3.371.201)	-	(833.358)	(47.494)	(14.179)	-	(4.768.900)
Disposals	-	-	-	-	-	8.594	-	-	-	8.594
Closing balance as of 31 December 2015	-	(278.378)	(3.070.517)	(40.734.415)	(1.658)	(8.783.251)	(380.644)	(14.179)	-	(53.263.042)
Net carrying value as of 31 December 2015	2.437.563	313.789	15.467.443	18.063.541	-	2.381.633	199.009	65.801	109.704	39.038.483

(All amounts expressed in Turkish Lira ("TL"))

9. PROPERTY, PLANT AND EQUIPMENT (cont'd)

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

	Useful Life
Land improvements	15 years
Buildings	40-50 years
Machinery and equipment	3-20 years
Vehicles	5 years
Furniture and fixtures	2-50 years
Other tangible assets	4-15 years
Leasehold improvements	3 years

10. INTANGIBLE ASSETS

The movement for intangible assets as of 31 December 2016 is as follows:

	Capitalized research and development expenses	Rights	Construction in progress	Total
Cost value				
Opening balance as of 1 January 2016	21.323.601	2.887.264	2.398.601	26.609.466
Additions	-	387.898	6.438.909	6.826.807
Transfers from construction in progress	7.797.416	-	(7.797.416)	-
Closing balance as of 31 December 2016	29.121.017	3.275.162	1.040.094	33.436.273
Accumulated amortization				
Opening balance as of 1 January 2016	(11.833.441)	(2.773.972)	-	(14.607.413)
Charge for the year	(3.407.161)	(165.962)	-	(3.573.123)
Closing balance as of 31 December 2016	(15.240.602)	(2.939.934)	-	(18.180.536)
Carrying value as of 31 December 2016	13.880.415	335.228	1.040.094	15.255.737

Construction in progress consists of development projects carried out in the Group's structure. When a development project within the Group is complete and a determinable asset that provides economic benefits, it is classified to intangible assets.

(All amounts expressed in Turkish Lira ("TL"))

10. INTANGIBLE ASSETS (cont'd)

The movement for intangible assets as of 31 December 2015 is as follows:

	Capitalized research and development expenses	Rights	Construction in progress	Total
Cost value				
Opening balance as of 1 January 2015	17.816.759	2.766.744	963.414	21.546.917
Additions	-	116.116	4.946.433	5.062.549
Transfers from construction in progress	3.506.842	4.404	(3.511.246)	-
Closing balance as of 31 December 2015	21.323.601	2.887.264	2.398.601	26.609.466
Accumulated amortization				
Opening balance as of 1 January 2015	(9.119.220)	(2.668.877)	-	(11.788.097)
Charge for the year	(2.714.221)	(105.095)	-	(2.819.316)
Closing balance as of 31 December 2015	(11.833.441)	(2.773.972)	-	(14.607.413)
Carrying value as of 31 December 2015	9.490.160	113.292	2.398.601	12.002.053

Useful lives of intangible assets are determined 5 years for capitalized development expenses and 3 years for rights.

11. GOVERNMENT GRANT AND INCENTIVES

Group has revised the incentive certificate that dated 15 May 2014 and numbered 114837 given by the Ministry of Economy with the domestic list with an amount of TL 21.954.453 and export list with an amount of USD 3.154.346 numbered C 114837. Expiry date of the incentive certificate is expanded to 30 August 2018.

Group has made an application to Ministry of Science, Industry and Technology to be a Research and Development Center and the Group received right on 27 August 2014.

Tax Law numbered 5520 dated 28 February 2009 and Law numbered 5838 was added by 32/A specified scope of the article and the Ministry of Treasury and Economy of the investment incentives derived from investments connected to document earnings partially or completely since the beginning of the accounting period till the contribution amount discount Corporate Tax can be applied. In addition, according to the Decree on State Aids in Investments no. 2012/3305, which was updated with the Council of Ministers Decree No. 2016/9138 published in Re-Ga dated 05/10/2016 and numbered 29848, the amount of investment expenditure exceeded and the percentage of total investment contribution In the investment period, the corporate tax may be applied to the profits obtained from other activities of the investor. Expenses subject to reduced corporate tax incentives investments are disclosed in Note 23.

(All amounts expressed in Turkish Lira ("TL"))

12. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

The details of the Group's other short-term provisions as of 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
Warranty provisions (i)	2.357.549	1.251.424
Legal provisions (ii)	745.380	638.624
Other provisions	378.544	318.650
	3.481.473	2.208.698

i. Warranty provisions represents the best estimation of the management for the current value of the outflow of economic benefits regarding the guarantee program of domestic sales of the coolers the Group produces and exports of water dispensers. The provision also includes the supply of spare parts without charge according to agreements with foreign customers that is determined based on the sales actualized at term end.

ii. Legal provisions consist of ongoing business and trade lawsuits of the Group. Legal provision is accounted in other operating expenses in statement of profit or loss. Based on the Group management opinion, considering the legal opinion received, the outcome of the lawsuits will not cause a significant loss in addition to the provision recognized as of 31 December 2016.

The details of the movement for warranty provision as of 31 December 2016 and 31 December 2015 are as follows:

<u>Guarantee provisions</u>

	2016	2015
Balance at 1 January	1.251.424	775.270
Charge for the year, net	1.106.125	476.154
Provision at 31 December	2.357.549	1.251.424

The movement for legal provision as of 31 December 2016 and 31 December 2015 are as follows:

<u>Legal provision</u>

	2016	2015
Balance at 1 January	638.624	803.728
Payments	(433.810)	(222.710)
Charge for the year	540.566	57.606
Provision at 31 December	745.380	638.624

(All amounts expressed in Turkish Lira ("TL"))

13. COMMITMENTS

Guarantees-Pledge-Mortgage ("GPM")

The Group's GPM position as at 31 December 2016 and 31 December 2015 is as follows:

31 December 2016	TL Equivalent	EUR	US Dollar	TL
The total of GPM that are given in the name of its own legal personality	228.342.207	60.018.308	1.045.000	2.002.722
- Guarantees	228.342.207	60.018.308	1.045.000	2.002.722
Total	228.342.207	60.018.308	1.045.000	2.002.722

31 December 2015	TL Equivalent	EUR	US Dollar	TL
The total of GPM that are given in the name of its own legal personality	153.318.548	47.994.808	-	810.246
- Guarantees	153.318.548	47.994.808	-	810.246
Total	153.318.548	47.994.808	-	810.246

The ratio of other guarantees-pledges-mortgages to owners' equity is 0% as of 31 December 2016 (31 December 2015: 0%).

The Group's guarantees position as at 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016	31 December 2015
Eximbank loans (*)	176.151.616	112.194.699
Ziraat Bank International A.G. (**)	46.510.305	39.836.962
Suppliers	3.519.200	476.640
Customers	1.023.120	-
Industrial Zone	368.560	368.560
Custom Offices	144.066	144.068
Other	625.340	297.619
Total contingent liabilities	228.342.207	153.318.548

(*) Letter of guarantees given for Eximbank loans are given as collateral for the loans utilized from Eximbank.

(**) Letter of guarantees given for Ziraat Bank International A.G. for the loan with three years maturity.

(All amounts expressed in Turkish Lira ("TL"))

14. PROVISION OF EMPLOYEE TERMINATION BENEFITS

Payables related to employee benefits:

	31 December 2016	31 December 2015
Social security premiums payable	2.034.196	990.597
Due to personnel	863.381	754.340
	2.897.577	1.744.937

Short-term provisions for employee benefits:

	31 December 2016	31 December 2015
Provision for bonus	2.100.000	1.800.000
Unused vacation provision	649.131	565.324
	2.749.131	2.365.324

As of 31 December 2016 and 31 December 2015, bonus provision movement is as follows:

Provision for Bonus Premium

	2016	2015
Balance at January 1	1.800.000	650.000
Payments	(1.537.534)	(812.502)
Charge for the year	1.837.534	1.962.502
Provision at 31 December	2.100.000	1.800.000

As of 31 December 2016 and 31 December 2015, unused vacation provision movement is as follows:

Unused Vacation Provision

	2016	2015
Balance at January 1	565.324	572.612
Payments	(907.650)	(323.977)
Charge for the year	991.457	316.689
Provision at 31 December	649.131	565.324

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14. PROVISION OF EMPLOYEE TERMINATION BENEFITS (cont'd)

Long-term provisions for employee benefits

Provision for retirement pay liability

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

The amount payable consists of one month's salary limited to a maximum of TL 4.297,21 for each period of service at 31 December 2016 (2015: TL 3.828,37).

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. TAS 19 *Employee Benefits* stipulates the development of group's liabilities by using actuarial valuation methods under defined benefit plans. In this direction, actuarial assumptions used in calculation of total liabilities are described as follows:

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2016, the provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. The provisions at the respective reporting dates have been calculated with the assumption of 4,23% real discount rate (31 December 2015: 4,50%) calculated by using 6,50% annual inflation rate and 11% discount rate. Estimated amount of retirement pay not paid due to voluntary leaves is also taken into consideration as 5,71% (31 December 2015: 5,01%) for employees with 0-15 years of service, and 100% for those with 16 or more years of service. Ceiling amount of TL 4.426,16 which is in effect since 1 January 2017 is used in the calculation of Group's provision for retirement pay liability (1 January 2016: TL 4.092,53).

The principal assumptions used in the calculation of retirement pay liability are discount rate and anticipated turnover rate.

- If the discount rate had been 1% lower/(higher), provision for employee termination benefits would increase/(decrease) by TL 669.909.

- If the anticipated turnover rate had been 1% higher/(lower) while all other variables were held constant, provision for employee termination benefits would decrease/(increase) by TL 144.168.

(All amounts expressed in Turkish Lira ("TL"))

14. PROVISION OF EMPLOYEE TERMINATION BENEFITS (cont'd)

Long-term provisions for employee benefits (cont'd)

Provision for retirement pay liability (cont'd)

Provision for retirement pay movement is as follows:

Movement of provision for severance payments

	2016	2015
Provision at 1 January	4.106.230	2.830.056
Interest cost	185.287	100.988
Service cost	1.590.858	531.525
Termination benefits paid	(1.071.315)	(964.165)
Actuarial loss	83.664	1.607.826
Provision as of 31 December	4.894.724	4.106.230

TL 1.292.004 (2015: TL 461.663) of the total expense is charged to cost of goods sold, TL 157.933 (2015: TL 55.827) of total expenses is charged to research and development expenses, TL 133.528 (2015: TL 46.780) of total expenses is charged to marketing expenses, TL 192.680 (2015: TL 68.243) of total expenses is charged to general administrative expenses.

(All amounts expressed in Turkish Lira ("TL"))

15. EXPENSES BY NATURE

	1 January- 31 December 2016	1 January- 31 December 2015
Raw material expenses	(195.902.341)	(163.189.144)
Personnel expenses	(46.158.684)	(35.658.362)
Production Overheads	(10.690.190)	(8.322.309)
Depreciation and amortisation expenses (Note 9,10)	(8.591.881)	(7.475.665)
Transportation expenses	(5.598.518)	(2.278.403)
Warranty expenses	(4.305.547)	(3.058.856)
Rent expenses	(2.167.556)	(1.322.716)
Advertising expenses	(1.566.395)	(706.734)
Consultancy expenses	(1.302.441)	(918.485)
Travel expenses	(1.325.584)	(915.158)
Tax and other legal dues	(755.202)	(339.814)
Attendance fee	(684.000)	(659.000)
Outsource expenses	(560.771)	(511.275)
Insurance expenses	(481.000)	(351.731)
Customs expenses	(333.062)	(371.216)
Training expense	(125.992)	(241.862)
Change in finished goods inventory	(7.715.120)	5.189.139
Change in work in progress inventory	(1.537.515)	2.015.279
Other	(18.956.485)	(20.929.400)
	(308.758.284)	(240.045.712)

16. OTHER ASSETS AND LIABILITIES

The details of the other current assets as of 31 December 2016 and 31 December 2015 are as follows:

Other Current Assets	31 December 2016	31 December 2015
VAT return	2.009.029	4.815.542
Deferred VAT	525.878	3.970.565
Other current assets	74.676	28.605
	2.609.583	8.814.712

(All amounts expressed in Turkish Lira ("TL"))

16. OTHER ASSETS AND LIABILITIES(cont'd)

The other liabilities as of 31 December 2016 and 31 December 2015 are as follows:

Other Short-term Liabilities	31 December 2016	31 December 2015
Excise tax payable	691.762	669.245
	691.762	669.245

17. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

a) Share Capital and Share Capital Adjustment Differences

As of 31 December 2016 and 31 December 2015, the share capital held is as follows:

Shareholders	Share Type	%	31 December 2016	%	31 December 2015
Metalfrio Solutions Soğutma Sanayi ve Tic. A.Ş.	A	43,4	14.357.540	43,4	14.357.540
Metalfrio Solutions Soğutma Sanayi ve Tic. A.Ş.	B	8,8	2.887.500	8,8	2.887.500
Metalfrio Solutions Soğutma Sanayi ve Tic. A.Ş.	C	8,8	2.887.500	8,8	2.887.500
Publicly traded (*)	D	39,0	12.867.460	39,0	12.867.460
Nominal capital		100	33.000.000	100	33.000.000
Inflation adjustment differences			980.882		980.882
Adjusted capital			33.980.882		33.980.882

(*) Metalfrio Solutions Soğutma Sanayi ve Tic. A.Ş.'s share in the capital structure of the Company is 68.75% when the 7.75% of the shares that are publicly trades is taken into consideration.

At 31 December 2016, the paid-in capital of the Group comprised 3.300.000.000 shares issued 0,01 TL each (31 December 2015: 3.300.000.000). The privileges given to ordinary shares are as follows:

At 31 December 2016 and 31 December 2015, registered shares are comprised preferred shares. D type shares are comprised listed shares and shares of real persons. D type shares cannot nominate candidates for the Board of Directors.

Board of Directors is composed of six members; one member from candidates nominated by C type shares, one member from candidates nominated by B type shares and four members from candidates nominated by A type shares assigned by General Assembly. A, B and C type shares have fifteen and each share in other type of shares have one voting power.

(All amounts expressed in Turkish Lira ("TL"))

17. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (cont'd)

a) Share Capital and Share Capital Adjustment Differences (cont'd)

Chairman of Board of Directors summons extraordinary general meeting within seven days upon request of the shareholder having at least 5% of the shares and agenda includes the issues requested by the shareholder. This rate is not mandatory for A, B and C type shares.

At least 51% approval of A, B and C type shares is required on the decisions regarding master agreement or to change the master agreement or to increase or decrease the share capital of the Group or on the decisions regarding the attendance fee of the Board of Directors.

Profit Distribution

Public companies carry out profit distribution according to Capital Market Board's Profit Distribution Disclosure No II-19.1 effective from 1 February 2014.

Partnerships distribute their profits within the frame of profit distribution policies set by general meeting of shareholders in accordance with legislation provisions. Within the scope of the relevant disclosure, no minimum rate of distribution has been set. Companies distribute dividends in ways designated in their articles of association or profit distribution policies.

In accordance with the Article 390/IV Turkish Commercial Code, the Group's net profit is TL 21.890.996 in the financial statements for the year ended 31 December 2015 which are prepared in accordance with the requirements of Capital Markets Law and Capital Markets Board ("CMB"), on the other hand the net profit is TL 26.265.772 in the financial statements for the same year ended which are prepared based on the Turkish Tax Law. When the primary reserve amount, TL 1.313.288 is deducted from the net profit calculated from the financial statements prepared according to the Capital Market Board regulations, the net distributable profit is equal to TL 20.577.708 (the distributable net profit calculated according to the CMB regulations is less than the net profit calculated according to tax regulations. Thus, the net profit calculated according to CMB regulations is used). When the donations paid is added on the net distributable amount within the year, the first dividend amount calculation with donations, and the net distributable amount is TL 20.579.066. As a dividend to shareholders from the net distributable profit of the year, TL 2.057.907 gross (cash), TL 1.961.442 net (cash) with a nominal value of TL 1 share, at the rate of 6,23% and 0,0623 TL gross, at the rate of 5,94% and TL 0,0594 net cash dividend payment is taken decision on 31 May 2016 and the dividend payment was made on this date.

b) Restricted Reserves Appropriated from Profit

The Group has reserved TL 1.354.288 total reserve as TL 1.313.218 from primary reserve, TL 40.790 from secondary reserve.

As of 31 December 2016 and 31 December 2015, restricted reserves appropriated from profit is as follows:

	31 December 2016	31 December 2015
Restricted reserves seperated from profit	4.184.074	2.829.996
	4.184.074	2.829.996

(All amounts expressed in Turkish Lira ("TL"))

18. REVENUE

a) Sales

	1 January- 31 December 2016	1 January- 31 December 2015
Domestic sales	148.409.528	74.052.274
Export sales	164.323.764	179.943.917
Other sales (*)	33.325.142	24.943.622
Sales deductions and discounts (**)	(8.280.528)	(11.845.579)
	337.777.906	267.094.234

(*) Other sales include material, spare part and commodity sales.

(**) Sales deductions and discounts include returns related to sales, discounts, sales commission, turnover premium expenses and reflected transportation expenses.

b) Cost of Sales

	1 January- 31 December 2016	1 January- 31 December 2015
Raw materials expenses	(195.902.341)	(163.189.144)
Personnel expenses	(31.493.059)	(23.503.161)
Production Overheads	(10.690.190)	(8.322.309)
Depreciation and amortization expenses (Note 9, 10)	(4.031.263)	(3.853.792)
Change in finished goods inventories	(7.715.120)	5.189.139
Change in work in progress inventories	(1.537.515)	2.015.279
Other	(15.417.381)	(18.268.408)
	(266.786.869)	(209.932.396)

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

	1 January- 31 December 2016	1 January- 31 December 2015
General administrative expenses (-)	(12.276.303)	(9.856.471)
Marketing and sales expenses (-)	(25.645.624)	(17.078.070)
Research and development expenses (-)	(4.049.488)	(3.178.775)
	(41.971.415)	(30.113.316)

(All amounts expressed in Turkish Lira ("TL"))

19. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES AND RESEARCH AND DEVELOPMENT EXPENSES (cont'd)

a) General administrative expenses

	1 January- 31 December 2016	1 January- 31 December 2015
Payroll expenses	(7.004.211)	(5.958.662)
Consultancy expenses	(1.113.344)	(774.114)
Taxes and other legal dues	(755.202)	(339.814)
Attendance fee of board of directors	(684.000)	(659.000)
Outsource expenses	(560.771)	(511.275)
Depreciation and amortization expenses (Note 9, 10)	(362.112)	(294.736)
Rent expenses	(256.667)	(151.205)
Travel expenses	(189.246)	(125.463)
Insurance expenses	(175.651)	(100.615)
Training expenses	(125.992)	(241.862)
Other	(1.049.107)	(699.725)
	(12.276.303)	(9.856.471)

b) Marketing expenses

	1 January- 31 December 2016	1 January- 31 December 2015
Payroll expenses	(7.661.414)	(6.196.539)
Transportation expenses	(5.598.518)	(2.278.403)
Warranty expenses	(4.305.547)	(3.058.856)
Rent expenses	(1.910.889)	(1.171.511)
Advertising expenses	(1.566.395)	(706.734)
Travel expenses	(1.136.338)	(789.695)
Custom expenses	(333.062)	(371.216)
Insurance expenses	(305.349)	(251.116)
Depreciation and amortization expenses (Note 9, 10)	(263.551)	(238.946)
Consultancy expenses	(189.097)	(144.371)
Other	(2.375.464)	(1.870.683)
	(25.645.624)	(17.078.070)

(All amounts expressed in Turkish Lira ("TL"))

19. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES AND RESEARCH AND DEVELOPMENT EXPENSES (cont'd)

c) Research and development expenses

	1 January- 31 December 2016	1 January- 31 December 2015
Depreciation and amortization expenses (Note 9, 10)	(3.934.955)	(3.088.191)
Other	(114.533)	(90.584)
	(4.049.488)	(3.178.775)

Group has made an application to Ministry of Science, Industry and Technology to be a Research and Development Center and as of 27 August 2014, the Group has the right to take Research and Development Center license. Since this date, R&D expenses evaluated as project purposes are appraised as "Construction in Progress" account under "Intangible Assets" as investments.

20. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

The details of other income from operating activities for the years ended 31 December 2016 and 2015 are as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Foreign currency gains from operations,net	2.282.319	8.271.894
Income from tax incentives related to R&D	833.799	641.055
Income from scrap sales	769.266	719.797
Trade receivables time recovery interest income	592.198	201.963
Gain on fixed asset sales	160.425	750
Discount income/(expense) , net	-	41.658
Other income	1.387.742	619.616
	6.025.749	10.496.733

(All amounts expressed in Turkish Lira ("TL"))

20. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES (cont'd)

The details of other expenses from operating activities for the years ended 31 December 2016 and 31 December 2015 are as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Provision expense for doubtful receivables (Note 5)	(634.773)	(74.871)
Discount income/(expense) , net	(634.419)	-
Legal provision	(540.566)	(57.606)
Previous year warranty and modification expenses(*)	-	(312.716)
Other expenses from operations	(385.686)	(284.096)
	(2.195.444)	(729.289)

(*) "Previous year warranty and modification expenses" for 2015 is the warranty expenses of the products sold to customers in 2014.

21. INCOME AND EXPENSES FROM INVESTING ACTIVITIES

The details of other income from investing activities for the years ended 31 December 2016 and 2015 are as follows:

Income from investing activities

	1 January- 31 December 2016	1 January- 31 December 2015
Foreign exchange gains related to investing activities, net	24.687.079	25.984.862
Increase in value of financial investments (*)	20.168.270	923.559
Interest income	12.238.972	11.717.533
Dividend income	30.175	-
	57.124.496	38.625.954

Expenses from investing activities

	1 January- 31 December 2016	1 January- 31 December 2015
Decrease in value of financial investments (*)	(3.488.175)	(16.603.787)
	(3.488.175)	(16.603.787)

(*) Value increases / decreases of financial investments resulted from the increase / decrease in the shares traded in Eurobond and the stock exchange which the company owns.

(All amounts expressed in Turkish Lira ("TL"))

22. FINANCE INCOME AND EXPENSES

	1 January- 31 December 2016	1 January- 31 December 2015
Foreign exchange expenses related to financing activities, net	(32.637.338)	(25.584.271)
Interest expenses on bank loans (-)	(8.565.828)	(8.292.506)
Interest income	965.871	605.581
Other finance expenses (-)	(3.015.791)	(1.211.455)
	(43.253.086)	(34.482.651)

23. INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)

	31 December 2016	31 December 2015
Current tax asset		
Current corporate tax provision	2.134.800	4.147.526
Less: Prepaid taxes and funds	(5.165.649)	(4.220.936)
	(3.030.849)	(73.410)

Income tax recognized in profit or loss

	1 January- 31 December 2016	1 January- 31 December 2015
Current tax expense	(2.134.800)	(4.147.526)
Deferred tax (expense) / income relating to origination and reversal of temporary differences	(1.089.410)	1.683.040
Total tax expense	(3.224.210)	(2.464.486)

Tax recognised directly in equity

Deferred tax	1 January- 31 December 2016	1 January- 31 December 2015
Recorded directly in equity :		
- Actuarial gain or loss	(16.733)	(321.565)
	(16.733)	(321.565)

23. INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (cont'd)

Corporate Tax

Klimasan, is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

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

The effective tax rate of Klimasan in 2016 is 7% (2015: 10%).

Metalfrio Poland SP. Z.o.o. operates in Poland and is subject to Poland corporate taxes. The effective tax rate in 2016 is 19% (2015: 19%).

Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax applied in between 24 April 2003 – 22 July 2006 is 10% and commencing from 22 July 2006, this rate has been changed to 15% upon the Council of Minister's' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Reduced Corporate Tax and State Incentive Implementation

Reduce corporate tax can be applied the income obtained from the investments that subject to the incentive certificate and its scope specified in corporate tax Law no. 5520 dated February 28, 2009 and numbered 32 / A which is added with the Law no.5838, until the amount reaches the contribution amount from the accounting period in which the investment is partially or fully operated.

Klimasan benefits from discounted income or corporate tax, within the scope of inventive certificate for investment expenditures , which is deducted of calculated contribution amount and will not be exceed of the realized investment amount, and not more than 60% within the scope of the 3rd region where the total investment.

(All amounts expressed in Turkish Lira ("TL"))

23. INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (cont'd)

Deferred Tax

Klimasan recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for TAS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for TAS and tax purposes and they are given below.

For calculation of deferred tax asset and liabilities, the rate of 20% (2015: 20%) is used.

Movement of deferred tax assets and liabilities for the period ended 31 December 2016 and 31 December 2015 are as follows:
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Deferred tax assets / (liabilities):	31 December 2016	31 December 2015
Valuation difference of receivables in foreign exchange	1.079.814	-
Provision for employment termination benefits	978.945	821.246
Valuation differences on debentures and bonds	882.793	3.351.726
Provision for warranty	471.510	250.285
Provision for bonuses	420.000	360.000
Seasonality adjustments and impairment of inventory	312.723	278.487
Adjustments related to the sales commission and rebates	220.858	90.930
Adjustments for the other provisions	204.975	17.444
Adjustments related to unrealized finance expense for trade receivables and notes receivables	170.640	57.552
Legal provision adjustments	149.076	127.725
Provision for doubtful receivables	141.929	14.974
Unused vacation provision	129.826	113.065
Valuation differences of derivative instruments	98.774	171.827
Depreciation adjustments for tangible assets and amortisation adjustments for intangible assets	(948.147)	(644.129)
Adjustments related to unrealized finance income for trade payables	(24.743)	(38.539)
Other temporary differences	(102.814)	286.243
	4.186.159	5.258.836

Movement of deferred tax assets / (liabilities)	2016	2015
Opening balance as of 1 January	5.258.836	3.254.231
Charged to profit or loss	(1.089.410)	1.683.040
Charged to equity	16.733	321.565
Closing balance as of 31 December	4.186.159	5.258.836

(All amounts expressed in Turkish Lira ("TL"))

23. INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (cont'd)

Total charge for the year can be reconciled to the accounting profit as follows:

Reconcilation of tax charge:	1 January- 31 December 2016	1 January- 31 December 2015
Profit before tax	43.233.162	24.355.482
Tax rate of 20% (2015: 20%)	8.646.632	4.871.096
Tax effects of:		
- revenue that is exempt from taxation	(1.275.212)	(1.024.236)
- non-deductible expenses	149.438	133.344
- expenses that are subject to reduced corporate tax within the scope of investment incentives	(4.310.896)	(1.120.013)
- effects of different tax rates on the subsidary 19%	5.957	-
- other	8.291	(395.705)
Income tax expense recognised in profit or loss	3.224.210	2.464.486

24. EARNINGS PER SHARE

The computation for the years ended 31 December is as follows:

Earnings per share	1 January- 31 December 2016	1 January- 31 December 2015
Number of weighted average of ordinary sales which has TL 1 nominal value	33.000.000	33.000.000
Net profit for the period	**40.008.952**	**21.890.996**
Earnings per share	**1,2124**	**0,6634**

(All amounts expressed in Turkish Lira ("TL"))

25. DERIVATIVE FINANCIAL INSTRUMENTS

Currency Derivatives:

The Group utilizes derivatives to hedge significant future transactions and cash flows. The Group is a party of foreign currency forward contracts and options based on the foreign currency risk management. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

As of the reporting date, the change in the fair value of the Group's obligations to make forward contracts that are not outstanding is, recorded in profit or loss in the period.

	31 December 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
Forward contracts	-	(493.869)	696.400	(1.555.533)
	-	(493.869)	696.400	(1.555.533)
Short-term	-	(493.869)	696.400	(1.555.533)
	-	(493.869)	696.400	(1.555.533)

These agreements are designed to address significant exchange exposures for the year 2016 and are renewed on a revolving basis as required.

Forward contracts	31 December 2016	31 December 2015
Sales Contract - US Dollar	2.000.000	16.216.000
Sales Contract - Euro	-	5.000.000
Purchase Contract - Euro	1.756.389	10.000.000
Purchase Contract - US Dollar	-	5.500.000

26. FINANCIAL INSTRUMENTS

Financial Investments

Financial assets at fair value through profit or loss

	31 December 2016	31 December 2015
Eurobond investments	239.526.010	103.733.436
Common stocks listed in the stock exchage	1.389.257	-
	240.915.267	103.733.436

(All amounts expressed in Turkish Lira ("TL"))

26. FINANCIAL INSTRUMENTS (cont'd)

Financial Investments (cont'd)

Financial assets at fair value through profit or loss (cont'd)

The Group, in order to evaluate the resulting surplus funds during certain periods, invests in various countries' the private sector bonds and bills. The Group, according to current market conditions, is due to be bound to perform transactions. Current portfolio consisting of 69% US Dollar, 26% Euro and 5% GBP, the Eurobond portfolio are valued at market prices each period and periodic profit or loss effect is presented in the consolidated financial statements.

Financial Liabilities

	31 December 2016	31 December 2015
Current portion of long-term borrowings	120.612.488	67.468.363
Long-term borrowings	214.676.800	172.294.086
	335.289.288	239.762.449

Currency type	Weighted average effective interest rate	31 December 2016 Current	Non-current
Euro	2,35% - 3,75%	101.166.564	179.485.078
US Dollar	4,50%	19.445.924	35.191.722
		120.612.488	214.676.800

Currency type	Weighted average effective interest rate	31 December 2015 Current	Non-current
Euro	2,35% - 3,85%	67.468.363	127.155.017
US Dollar	3% - 4,50%	-	45.139.069
		67.468.363	172.294.086

(All amounts expressed in Turkish Lira ("TL"))

26. FINANCIAL INSTRUMENTS (cont'd)

Financial Liabilities (cont'd)

The borrowings are repayable as follows:

	31 December 2016	31 December 2015
To be paid within 1 year	120.612.488	67.468.363
To be paid between 1-2 years	67.753.398	97.093.772
To be paid between 2-3 years	80.158.803	52.131.805
To be paid between 3-4 years	19.370.918	17.753.471
To be paid between 4-5 years	10.303.421	5.315.038
To be paid in more than 5 years	37.090.260	-
	335.289.288	239.762.449

Group's cash and non-cash loans are guaranteed by Group's main shareholder Metalfrio Solutions Soğutma Sanayi ve Ticaret A.Ş.

Fair value of the Group's debt approximates their carrying amount.

(All amounts expressed in Turkish Lira ("TL"))

27. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

a) Capital risk management

The Group manages its capital to ensure to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 26, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The cost of capital and any risks associated with each class of capital is evaluated by the Group management. Based on recommendations of the Group management, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The strategy of the Group was unchanged from the previous period.
The gearing ratio is calculated as total borrowings less cash and cash equivalents and financial investments divided by total capital and the gearing ratio as at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Financial liabilities	335.289.288	239.762.449
Less: Cash and cash equivalents and Short-term Investments	(311.986.084)	(204.048.044)
Net Debt	23.303.204	35.714.405
Total Equity	131.340.174	92.642.481
Total Share Capital	154.643.378	128.356.886
Net Debt / Total Equity Ratio	15%	28%

b) Financial Risk Factors:

The Group's activities expose it to a variety of financial risks including interest rate risk, liquidity risk, currency risk and credit risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Group, through its training and management standards and procedures, maintains a disciplined and constructive control environment in which all employees understand their roles and obligations.

(All amounts expressed in Turkish Lira ("TL"))

27. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Factors (cont'd)

b.1) Credit risk management (cont'd)

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Group has made obtained about the customers previous experiences and present, financial situation, and geographical status and has determine customer limit and risks via analysis.

Incurred credit risks by types of financial asset	**Receivables**					
	Trade Receivables		**Other Receivables**			
31 December 2016	**Related Party**	**Third Party**	**Related Party**	**Third Party**	**Deposit at Banks**	**Financial Investments**
Maximum credit risk as of reporting date (A+B+C+D) (*)	6.434.729	75.797.878	18.043.232	1.432.526	71.038.503	240.915.267
- Portion of maximum risk secured by guarantees etc. (**)	-	22.663.867	-	-	-	-
A. Net carrying value of neither past due nor impaired financial assets	1.736.001	50.628.422	18.043.232	1.432.526	71.038.503	240.915.267
B. Net carrying value of past due but nor impaired financial assets	4.698.728	25.169.456	-	-	-	-
C. Net carrying value of impaired financial assets						
- Past due (gross carrying value)	-	11.476.342	-	-	-	-
- Impairment (-)	-	(11.476.342)	-	-	-	-
- Net value part secured with collateral	-	-	-	-	-	-
- Undue (gross carrying value)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Net value part secured with collateral	-	-	-	-	-	-
D. Credit risk included off the balance sheet items	-	-	-	-	-	-

(*) Factors enhancing the credibility, such as guarantees received, have not been taken into account in determination of amounts.

(**) Guarantees includes guaranteed notes, guaranteed checks and mortgages from customers.

(All amounts expressed in Turkish Lira ("TL"))

27. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Factors (cont'd)

b.1) Credit risk management (cont'd)

Incurred credit risks by types of financial asset	Receivables					
	Trade Receivables		Other Receivables			
31 December 2015	Related Party	Third Party	Related Party	Third Party	Deposit at Banks	Financial Investments
Maximum credit risk as of reporting date (A+B+C+D) (*)	9.040.618	51.505.602	14.770.608	1.422.107	100.286.476	103.733.436
- Portion of maximum risk secured by guarantees etc. (**)	-	15.873.384	-	-	-	-
A. Net carrying value of neither past due nor impaired financial assets	3.957.521	39.334.034	14.770.608	1.422.107	100.286.476	103.733.436
B. Net carrying value of past due but nor impaired financial assets	5.083.097	12.171.568	-	-	-	-
C. Net carrying value of impaired financial assets						
- Past due (gross carrying value)	-	9.348.760	-	-	-	-
- Impairment (-)	-	(9.348.760)	-	-	-	-
- Net value part secured with collateral	-	-	-	-	-	-
- Undue (gross carrying value)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Net value part secured with collateral	-	-	-	-	-	-
D. Credit risk included off the balance sheet items	-	-	-	-	-	-

(*) Factors enhancing the credibility, such as guarantees received, have not been taken into account in determination of amounts.

(**) Guarantees includes guaranteed notes, guaranteed checks and mortgages from customers.

The Group's management has tried to manage the credit risk of receivables according to customer-specific credit risk analysis through such methods as advances obtained from customer or work with letter of credit. The Group protects itself from any dispute by analyzing the reliability of their customers, putting required sales terms to sales contracts. Furthermore, the Group management follows the delays in collections from its customers by analyzing aging analyses and takes precautions to such kind of delays. The Group provides provision for its receivables having collection problems. Provisions for doubtful receivables are within the prescribed limits when previous experience of the Group in collection from customers is reviewed. Accordingly, the Group does not expect any other risk for its remaining receivables.

The details of overdue trade receivables are as follows:

Trade Receivables	31 December 2016	31 December 2015
1 to 30 days overdue	4.199.372	4.180.919
1 to 3 months overdue	9.088.434	8.671.563
3 to 12 months overdue	14.316.409	1.877.541
Over 1 - 5 years overdue	2.263.969	2.524.642
Total overdue receivables	**29.868.184**	**17.254.665**

(All amounts expressed in Turkish Lira ("TL"))

27. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Factors (cont'd)

b.2) Liquidity risk management

Liquidity risk occurs generally while funding Group's activities funding and managing Group's position. This risk of includes failing to fund assets at appropriate maturities and rates and a convenient time slice of an asset at a reasonable price and also the risk of failing to dispose of them. The Group is entitled to use banks, dealers and shareholders as source of funds. Group consistently evaluates changes in its funding conditions necessary to achieve the objectives set out within the strategy and evaluate the liquidity risk by monitoring continuously. As of reporting date, the Group can be exposed to the funding risk.

The Group manages its liquidity risk by following its cash flow regularly, keeping continuity of its funding resources by matching the maturity of its liabilities and assets.

The risk of funding current and probable liability requirements is managed by keeping adequate number of loan supplier.

Prudent liquidity risk management represents maintaining sufficient cash funds with sufficient credit transactions to close out market positions of resource availability and the ability.

The below table shows the non-derivative financial liabilities of the Group according to their remaining maturities. Since the Group takes into account the expected maturity for its non-derivative financial liabilities, the cash flows resulting from non-derivative financial liabilities based on the expected maturity are presented separately.

31 December 2016

Maturities as per the terms	Book value	Total cash outflows as per the terms of agreement (I+II+III+IV)	Less than 3 months (I)	Between 3-12 months (II)	Between 1-5 years (III)	More than 5 years (IV)	
Non-derivative financial liabilities							
Bank borrowings	(335.289.288)	(361.551.790)	(5.285.356)	(124.456.805)	(191.341.076)	(40.468.553)	
Trade payables	(59.965.313)	(59.267.454)	(55.423.499)	(3.843.955)	-	-	
Other payables	(233.677)	(233.677)	(204.832)	-	(28.845)	-	
Total liabilities	**(395.488.278)**	**(421.052.921)**	**(60.913.687)**	**(128.300.760)**	**(191.369.921)**	**(40.468.553)**	-
Derivative cash inflows	-	6.516.027	-	6.516.027	-	-	
Derivative cash outflows	(493.869)	(7.038.400)	-	(7.038.400)	-	-	

(All amounts expressed in Turkish Lira ("TL"))

27. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Factors (cont'd)

b.2) Liquidity risk management (cont'd)

31 December 2015

Maturities as per the terms	**Book value**	**Total cash outflows as per the terms of agreement (I+II+III+IV)**	**Less than 3 months (I)**	**Between 3-12 months (II)**	**Between 1-5 years (III)**	**5 yıldan uzun (IV)**
Non-derivative financial liabilities						
Bank borrowings	(239.762.449)	(253.472.294)	(18.571.668)	(55.696.458)	(179.204.168)	-
Trade payables	(52.789.830)	(52.895.306)	(47.691.842)	(5.203.464)	-	-
Other payables	(238.699)	(238.699)	(207.854)	-	(30.845)	-
Total liabilities	**(292.790.978)**	**(306.606.299)**	**(66.471.364)**	**(60.899.922)**	**(179.235.013)**	**-**
Derivative cash inflows	696.400	79.203.000	-	79.203.000	-	-
Derivative cash outflows	(1.555.533)	(79.380.892)	-	(79.380.892)	-	-

b.3) Market risk management

The Group's operations are primarily exposed to changes in foreign exchange and interest rate risks associated with financial market risks encountered as given in the details below. Market risks at the Group level measured by sensitivity analysis.

In current year, there is no change in the Group's exposure to market risk or exposure risk management and assessment as compared to prior year.

b.3.1) Foreign currency risk management

Transactions denominated in foreign currencies result in foreign currency risk.

Klimasan is exposed the currency risk as a result of foreign currency denominated in assets and liabilities into Turkish Lira. Foreign currency risk from future commercial transactions recorded arises due to the difference between the assets and liabilities. Hence, the exchange rate exposures are managed within the approved policy parameters utilizing forward foreign exchange contracts.

Metalfrio Solutions Poland SP. Z.o.o is not exposed to significant foreign currency exposure as the transactions are held in EUR which is also its functional currency.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting period are as follows:

(All amounts expressed in Turkish Lira ("TL"))

27. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Factors (cont'd)

b.3) Market risk management (cont'd)

b.3.1) Foreign currency risk management (cont'd)

	31 December 2016			
	TL Equivalent (Functional Currency)	**US Dollar**	**Euro**	**GBP**
1. Trade Receivables	58.127.105	8.470.211	7.633.289	-
2a. Monetary Financial Assets	307.703.647	54.275.574	28.189.195	2.805.796
2b. Non-monetary Financial Assets	17.596.000	5.000.000	-	-
3. Other	-	-	-	-
4. CURRENT ASSETS	383.426.752	67.745.785	35.822.484	2.805.796
5. Trade Receivables	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-
6b. Non-monetary Financial Assets	-	-	-	-
7. Other	-	-	-	-
8. NON-CURRENT ASSETS	-	-	-	-
9. TOTAL ASSETS	**383.426.752**	**67.745.785**	**35.822.484**	**2.805.796**
10. Trade Payables	31.410.099	2.954.225	5.658.397	4.979
11. Financial Liabilities	120.612.489	5.525.666	27.269.351	-
12a. Monetary Other Liabilities	-	-	-	-
12b. Non-monetary other liabilities	-	-	-	-
13. SHORT-TERM LIABILITIES	152.022.588	8.479.891	32.927.748	4.979
14. Trade Payables	-	-	-	-
15. Financial Liabilities	214.676.799	9.999.921	48.380.031	-
16a. Monetary Other Liabilities	-	-	-	-
16b. Non-monetary Other Liabilies	-	-	-	-
17. LONG-TERM LIABILITES	214.676.799	9.999.921	48.380.031	-
18. TOTAL LIABILITIES	**366.699.387**	**18.479.812**	**81.307.779**	**4.979**
19. Off-balance sheet derivative instruments net asset / liability position (19a-19b)	(522.372)	(2.000.000)	1.756.389	-
19a. Off-balance sheet foreign currency	6.516.028	-	1.756.389	-
derivative assets		-	-	-
19b. Off-balance sheet foreign currency	7.038.400	2.000.000	-	-
derivative assets		-	-	-
20. Net foreign currency assets / liabilities position	**16.204.993**	**47.265.973**	**(43.728.906)**	**2.800.817**
21. Monetary items net foreign currency assets / liabilities (1+2a+5+6a-10-11-12a-14-15-16a)	(868.635)	44.265.973	(45.485.295)	2.800.817

(All amounts expressed in Turkish Lira ("TL"))

27. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Factors (cont'd)

b.3) Market risk management (cont'd)

b.3.1) Foreign currency risk management (cont'd)

	31 December 2015			
	TL Equivalent (Functional Currency)	**US Dollar**	**Euro**	**GBP**
1. Trade Receivables	56.854.517	12.102.436	6.818.188	-
2a. Monetary Financial Assets	163.241.443	31.347.471	21.250.276	1.062.771
2b. Non-monetary Financial Assets	14.538.000	5.000.000	-	-
3. Other	-	-	-	-
4. CURRENT ASSETS	234.633.960	48.449.907	28.068.464	1.062.771
5. Trade Receivables	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-
6b. Non-monetary Financial Assets	-	-	-	-
7. Other	-	-	-	-
8. NON-CURRENT ASSETS	-	-	-	-
9. TOTAL ASSETS	**234.633.960**	**48.449.907**	**28.068.464**	**1.062.771**
10. Trade Payables	27.128.818	3.242.654	5.553.597	12.409
11. Financial Liabilities	67.468.363	-	21.232.491	-
12a. Monetary Other Liabilities	-	-	-	-
12b. Other	-	-	-	-
13. SHORT-TERM LIABILITIES	94.597.181	3.242.654	26.786.088	12.409
14. Trade Payables	-	-	-	-
15. Financial Liabilities	172.294.086	15.524.511	40.016.055	-
16a. Monetary Other Liabilities	-	-	-	-
16b. Non-monetary Other Liabilies	-	-	-	-
17. LONG-TERM LIABILITES	172.294.086	15.524.511	40.016.055	-
18. TOTAL LIABILITIES	**266.891.267**	**18.767.165**	**66.802.143**	**12.409**
19. Off-balance sheet derivative instruments net asset / liability position (19a-19b)	(15.269.842)	(10.716.000)	5.000.000	-
19a. Off-balance sheet foreign currency derivative assets	47.767.800	5.500.000	10.000.000	-
19b. Off-balance sheet foreign currency derivative assets	63.037.642	16.216.000	5.000.000	-
20. Net foreign currency assets / liabilities position	**(47.527.149)**	**18.966.742**	**(33.733.679)**	**1.050.362**
21. Monetary items net foreign currency assets / liabilities (1+2a+5+6a-10-11-12a-14-15-16a)	(46.795.307)	24.682.742	(38.733.679)	1.050.362

27. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Factors (cont'd)

b.3) Market risk management (cont'd)

b.3.1) Foreign currency risk management (cont'd)

Foreign currency sensitivity analysis

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US Dollar, Euro and GBP.

The following table details the Group's sensitivity to a 10% increase and decrease in US Dollar, Euro and GBP against TL. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit or equity.

	31 December 2016	
	Profit / Loss	
	10% strengthening of foreign currency	10% weakening of foreign currency
1- US Dollar net asset / liability	16.633.841	(16.633.841)
2- Portion from US Dollar hedged (-)	-	-
3- Net Effect of US Dollar (1+2)	16.633.841	(16.633.841)
4- EURO net asset / liabilitiy	(16.222.987)	16.222.987
5- Portion from EURO hedged (-)	-	-
6- Net Effect of Euro (4+5)	(16.222.987)	16.222.987
7- GBP net asset / liabilitiy	1.209.645	(1.209.645)
8- Portion from GBP hedged (-)	-	-
9- Net Effect of GBP (7+8)	1.209.645	(1.209.645)
TOTAL (3+6+9)	**1.620.499**	**(1.620.499)**

(All amounts expressed in Turkish Lira ("TL"))

27. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Factors (cont'd)

b.3) Market risk management (cont'd)

b.3.1) Foreign currency risk management (cont'd)

Foreign currency sensitivity analysis (cont'd)

	31 December 2015	
	Profit / Loss	
	10% strengthening of foreign currency	10% weakening of foreign currency
1- US Dollar net asset / liability	5.514.770	(5.514.770)
2- Portion from US Dollar hedged (-)	-	-
3- Net Effect of US Dollar (1+2)	5.514.770	(5.514.770)
4- EURO net asset / liabilitiy	(10.719.214)	10.719.214
5- Portion from EURO hedged (-)	-	-
6- Net Effect of Euro (4+5)	(10.719.214)	10.719.214
7- GBP net asset / liabilitiy	451.729	(451.729)
8- Portion from GBP hedged (-)	-	-
9- Net Effect of GBP (7+8)	451.729	(451.729)
TOTAL (3+6+9)	**(4.752.715)**	**4.752.715**

(All amounts expressed in Turkish Lira ("TL"))

27. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Factors (cont'd)

b.3) Market risk management (cont'd)

b.3.2) Interest rate risk management

The Group is exposed to interest rate risk as the entity borrow funds at both fixed and floating interest rates. The Group's interest rate risk management strategy is evaluated on a regular basis in order to be compatible with interest rate expectations and defined risk appetites. Thus, creation of optimal hedging strategy serves the need to review the statement of financial position and to keep interest expense under control against volatile rates.

Interest rate sensitivity analysis

Interest Position Movement

		31 December 2016	31 December 2015
	Instruments with Fixed Interest		
Financial Assets	Time deposits with maturities less than three months	28.999.868	89.867.733
	Assets which fair value is reflected to profit and loss	240.915.267	103.733.436
Financial Liabilities		153.409.489	136.937.469
	Instruments with Variable Interest		
Financial Assets		-	-
Financial Liabilities		181.879.799	102.824.980

If TL interest rates had been 100 basis points higher and all other variables were held constant, the profit before tax for the year ended 31 December 2016 would decrease by TL 6.450.888 (31 December 2015: TL 2.367.330). Due to the effect of relevant change in exchange rate on equity without affecting profit/loss, equity would be TL 6.450.888 (31 December 2015: TL 2.367.330) lower.

If TL interest rates had been 100 basis points lower and all other variables were held constant, the profit before tax for the year ended 31 December 2016 would increase by TL 6.450.888 (31 December 2015: TL 2.367.330). Due to the effect of relevant change in exchange rate on equity without affecting profit/loss, equity would be TL 6.450.888 (31.December 2015: TL 2.367.330) higher.

(All amounts expressed in Turkish Lira ("TL"))

28. FINANCIAL INSTRUMENTS (FAIR VALUE DISCLOSURES AND EXPLANATIONS ON HEDGE ACCOUNTING)

31 December 2016	Loans and receivables (including cash and cash equivalents)	Financial assets at FVTPL	Financial liabilities at amortized cost	Carrying value	Note
Financial assets					
Cash and cash equivalents	71.070.817	-	-	71.070.817	30
Financial investments	-	240.915.267	-	240.915.267	26
Trade receivables	75.838.702	-	-	75.838.702	5
Trade receivables from related parties	6.434.729	-	-	6.434.729	4,5
Other receivables from related parties	18.043.232	-	-	18.043.232	4,6
Other receivables	1.432.526	-	-	1.432.526	6
Financial liabilities					
Financial borrowings	-	-	335.289.288	335.289.288	26
Trade payables	-	-	59.823.103	59.823.103	5
Trade payables to related parties	-	-	142.210	142.210	4,5
Other payables and liabilities (*)	-	-	1.788.820	1.788.820	6,14,16

The Group management considers the carrying amount of financial assets approximate their fair values.

(*) Other payables and liabilities includes "Other liabilities to third parties", "Due to personnel" and "Other short-term liabilities".

(All amounts expressed in Turkish Lira ("TL"))

28. FINANCIAL INSTRUMENTS (FAIR VALUE DISCLOSURES AND EXPLANATIONS ON HEDGE ACCOUNTING) (cont'd)

31 December 2015	Loans and receivables (including cash and cash equivalents)	Financial assets at FVTPL	Financial liabilities at amortized cost	Carrying value	Note
Financial assets					
Cash and cash equivalents	100.314.608	-	-	100.314.608	30
Financial investments	-	103.733.436	-	103.733.436	26
Trade receivables	51.505.602	-	-	51.505.602	5
Trade receivables from related parties	9.040.618	-	-	9.040.618	4,5
Other receivables from related parties	14.770.608	-	-	14.770.608	4,6
Other receivables and assets	1.422.107	-	-	1.422.107	6
Financial liabilities					
Financial borrowings	-	-	239.762.449	239.762.449	26
Trade payables	-	-	52.724.332	52.724.332	5
Trade payables to related parties	-	-	65.498	65.498	4,5
Other payables and liabilities (*)	-	-	1.662.284	1.662.284	6,14,16

The Group management considers the carrying amount of financial assets approximate their fair values.

(*) Other payables and liabilities includes "Other liabilities to third parties", "Due to personnel" and "Other short-term liabilities".

(All amounts expressed in Turkish Lira ("TL"))

28. FINANCIAL INSTRUMENTS (FAIR VALUE DISCLOSURES AND EXPLANATIONS ON HEDGE ACCOUNTING) (cont'd)

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined and grouped as follows:

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

- Level 2: the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

- Level 3: the fair value of the financial assets and financial liabilities are determined where there is no observable market data.

Fair value hierarchy of financial assets and liabilities that are measured at fair value:

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined.

Financial Assets / Financial Liabilities	Fair Value		Fair Value Level
	31 December 2016	**31 December 2015**	
Financial Investments	239.526.010	103.733.436	1
Common Shares (held for trading)	1.389.257	-	1
Foreign currency forward contracts	(493.869)	(859.133)	2

(All amounts expressed in Turkish Lira ("TL"))

28. FINANCIAL INSTRUMENTS (FAIR VALUE DISCLOSURES AND EXPLANATIONS ON HEDGE ACCOUNTING) (cont'd)

Other price risks

The Group invests in private sector bonds and bills in various countries in order to assess the excess funding that arises in certain periods. The Group performs trading transactions irrespective of the current market conditions and the changes in the market price of the securities are reflected in the financial statements every period. For this reason, prices are subject to risk due to changes in market prices.

The following table shows the Group's sensitivity to the market price of each eurobond according to 10% increase and decrease probability. The sensitivity analysis only covers the Eurobond portfolio at the end of the reporting period and is subject to a 10% price change, subject to the original foreign currency price at the end of the period. Positive value refers to the increase in profit or loss and other equity items.

	Profit / Loss	
	10% strengthening of market prices	10% weakening of market prices
31 December 2016	23.569.298	(23.569.298)
31 December 2015	10.146.505	(10.146.505)

29. EVENTS AFTER THE REPORTING PERIOD

The Board of Directors decided that the trade name would be Metalfrio West Africa, with a participation of 97% in the company to be established in Nigeria with US $ 10,000 in establishment capital.

30. DISCLOSURES RELATED TO STATEMENT OF CASH FLOWS

At 31 December2016 and 31 December 2015 cash and cash equivalents comprised the following:

	31 December 2016	31 December 2015
Cash on hand	32.314	28.132
Cash at banks	70.819.041	100.132.671
Time deposit with maturities less than three months	*28.999.868*	*89.867.733*
Demand deposits	*41.819.173*	*10.264.938*
Other cash and cash equivalents	219.462	153.805
	71.070.817	100.314.608

(All amounts expressed in Turkish Lira ("TL"))

30. DISCLOSURES RELATED TO STATEMENT OF CASH FLOWS (cont'd)

As at 31 December 2016 and 31 December 2015, details of time deposits are as follows:

Currency	Interest Rate (%)	Maturity	31 December 2016
TL	8,50 - 10,00	January 2017	2.500.986
Euro	1,60 - 1,75	January 2017	15.584.773
US Dollar	3,00 - 3,65	January 2017	10.914.109
			28.999.868

Currency	Interest Rate (%)	Maturity	31 December 2015
TL	12,50 - 13,90	January 2016	39.267.178
Euro	1,70 - 1,85	January 2016	25.433.676
US Dollar	2,00 - 3,10	January 2016	25.166.879
			89.867.733