

**KLİMASAN KLİMA SANAYİ VE  
TİCARET ANONİM ŞİRKETİ AND ITS  
SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 DECEMBER 2017 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 General Assembly of  
Klimasan Klima Sanayi ve Ticaret Anonim Şirketi**

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

##### **1) Opinion**

We have audited the consolidated financial statements of Klimasan Klima Sanayi ve Ticaret A.Ş (“the Company”) and its subsidiaries (“the Group”), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

##### **2) Basis for Opinion**

We conducted our audit in accordance with Independent Auditing Standards as published by the Capital Markets Board and Independent Auditing Standards which is a part of the Turkish Auditing Standards as published by Public Oversight, Accounting and Auditing Standards Authority (POA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with *The Code of Ethics for Auditors* (Code of Ethics) published by POA and the ethical provisions subsumed in the legislation concerning the independent audit of the financial statements. We have fulfilled our other ethical responsibilities in accordance with the Code of Ethics and the other ethical obligations under the scope of the legislation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 3) Key Audit Matters

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

Key Audit Matter	How key audit matter was addressed
<p><b>Consideration of Bill-and-Hold Transactions</b></p> <p>Group's revenue stream consists of manufacturing and sales of industrial type coolers and freezers.</p> <p>Upon requests by the customers, the Group carries out a part of its sales through bill-and-hold agreements. Bill and hold is a form of sales arrangement in which the Company bills a customer for products but does not ship the product until a later date.</p> <p>Under the bill-and-hold agreements, the Group prepares invoices for sales of the products without issuing the delivery notes and without the goods leaving the warehouse.</p> <p>Revenue is recognized when significant risks and rewards of ownership are transferred to the buyer. Due to the high risk of error, these non-standard transactions are considered a key audit matter.</p> <p>Significant accounting policies are disclosed in Note 2.</p>	<p>Through our audit, we evaluated the controls designed for the risk existing in the revenue recognition at the correct period. Additional audit procedures performed are as follows:</p> <ul style="list-style-type: none"> <li>• We tested whether or not the goods to be dispatched to the customers at a future date are ready to deliver.</li> <li>• We obtained the list of goods that will be dispatched to the customers at a future date under the scope of the bill-and-hold agreements. The compliance of the goods with the relevant stocklist is assured through the application of sampling method during the inventory counts. Furthermore, we observed that the aforementioned goods are held separately from the stocks owned by the Group.</li> <li>• We chose customers from those have bill-and-hold agreements through a sampling method. We obtained letters of confirmation regarding their acknowledgement of the future delivery and the fact that they have taken over the risks and liabilities of the products.</li> <li>• We tested that there is no change in the payment method for the sales realized under the scope of the bill-and-hold agreements and that the customary payment method applicable to all other sales is applied.</li> <li>• We tested the sales returns from those under the scope of the bill-and-hold agreements in the subsequent period.</li> </ul> <p>Depending on the audit procedures applied, we deemed the evaluations of the management and the accounting policies applied to be appropriate.</p>

## 4) Responsibilities of Management and Those Charged with Governance 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.

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

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

## 5) Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

In an independent audit, our responsibilities as independent auditors are as follows:

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Independent Auditing Standards published by the Capital Markets Board will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs issued by the Capital Markets Board, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. (The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.)
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to

the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

## B) Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 398 of the Turkish Commercial Code (“TCC”) No. 6102, 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 5 March 2018.

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 2017 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.

The independent audit herein, is conducted and concluded by the engagement partner Gülin Günce.

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



Gülin Günce SMMM  
Partner

İzmir, 5 March 2018

<b>INDEX</b>	<b>PAGE</b>
<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....</b>	<b>1-2</b>
<b>CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME.....</b>	<b>3</b>
<b>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.....</b>	<b>4</b>
<b>CONSOLIDATED STATEMENT OF CASH FLOWS.....</b>	<b>5-6</b>
<b>NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.....</b>	<b>7-79</b>
NOTE 1 ORGANIZATION AND OPERATIONS OF THE GROUP.....	7
NOTE 2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS.....	8-32
NOTE 3 BUSINESS COMBINATIONS.....	33-34
NOTE 4 RELATED PARTY DISCLOSURES.....	35-37
NOTE 5 TRADE RECEIVABLES AND PAYABLES.....	38-39
NOTE 6 OTHER RECEIVABLES AND PAYABLES.....	39-40
NOTE 7 INVENTORIES.....	40
NOTE 8 PREPAID EXPENSES AND DEFERRED INCOME.....	41
NOTE 9 PROPERTY, PLANT AND EQUIPMENT.....	42-44
NOTE 10 INTANGIBLE ASSETS.....	44-45
NOTE 11 GOODWILL.....	45
NOTE 12 GOVERNMENT GRANT AND INCENTIVES.....	46
NOTE 13 PROVISIONS, CONTINGENT ASSETS AND LIABILITIES.....	46-47
NOTE 14 COMMITMENTS.....	47-48
NOTE 15 PROVISIONS OF EMPLOYEE TERMINATION BENEFITS.....	48-50
NOTE 16 EXPENSES BY NATURE.....	51
NOTE 17 OTHER ASSETS AND LIABILITIES.....	51
NOTE 18 SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS.....	52-53
NOTE 19 REVENUE.....	54
NOTE 20 GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES AND RESEARCH AND DEVELOPMENT EXPENSES.....	54-56
NOTE 21 OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES.....	56-57
NOTE 22 INCOME AND EXPENSES FROM INVESTING ACTIVITIES.....	57
NOTE 23 FINANCE INCOME AND EXPENSES.....	58
NOTE 24 INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES).....	58-61
NOTE 25 EARNINGS PER SHARE.....	62
NOTE 26 DERIVATIVE FINANCIAL INSTRUMENTS.....	62
NOTE 27 FINANCIAL INSTRUMENTS.....	63-64
NOTE 28 NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS.....	65-74
NOTE 29 FINANCIAL INSTRUMENTS (FAIR VALUE DISCLOSURES AND EXPLANATIONS ON HEDGE ACCOUNTING).....	75-78
NOTE 30 EVENTS AFTER THE REPORTING PERIOD.....	78
NOTE 31 DISCLOSURES RELATED TO STATEMENT OF CASH FLOWS.....	79

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT  
31 DECEMBER 2017**

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

<b>ASSETS</b>	<b>Notes</b>	<b>Audited Current Period 31 December 2017</b>	<b>Audited Prior Period 31 December 2016</b>
<b>Current Assets</b>		<b>554.131.425</b>	<b>472.741.216</b>
Cash And Cash Equivalents	31	151.771.957	71.070.817
Financial Investments	27	151.146.340	240.915.267
Trade Receivables		75.661.496	82.063.840
<i>Trade Receivables from Related Parties</i>	4,5	6.803.511	6.265.962
<i>Trade Receivables from Third Parties</i>	5	68.857.985	75.797.878
Other Receivables		35.532.945	19.631.961
<i>Other Receivables from Related Parties</i>	4,6	33.467.284	18.211.999
<i>Other Receivables from Third Parties</i>	6	2.065.661	1.419.962
Inventories	7	103.455.333	43.046.532
Derivative Financial Instruments	26	1.089.555	-
Prepaid Expenses	8	14.964.740	10.372.367
Current Tax Assets	24	-	3.030.849
Other Current Assets	17	20.509.059	2.609.583
<b>Non-Current Assets</b>		<b>90.945.545</b>	<b>70.490.257</b>
Trade Receivables		-	40.824
<i>Trade Receivables From Third Parties</i>	5	-	40.824
Other Receivables		12.564	12.564
<i>Other Receivables From Third Parties</i>	6	12.564	12.564
Property, Plant And Equipment	9	66.725.175	50.754.656
Intangible Assets		18.270.050	15.255.737
<i>Goodwill</i>	3,11	383.655	-
<i>Other Intangible Assets</i>	10	17.886.395	15.255.737
Prepaid Expenses	8	481.838	240.317
Deferred Tax Assets	24	5.455.918	4.186.159
<b>TOTAL ASSETS</b>		<b>645.076.970</b>	<b>543.231.473</b>

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



**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT  
31 DECEMBER 2017**

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

<b>LIABILITIES</b>	<b>Notes</b>	<b>Audited Current Period 31 December 2017</b>	<b>Audited Prior Period 31 December 2016</b>
<b>Current Liabilities</b>		<b>227.887.332</b>	<b>192.290.930</b>
Short-Term Portion Of Long-Term Borrowings	27	78.678.177	120.612.488
Trade Payables		135.520.915	59.965.313
<i>Trade Payables To Related Parties</i>	4,5	158.768	142.210
<i>Trade Payables To Third Parties</i>	5	135.362.147	59.823.103
Payables Related To Employee Benefits	15	3.367.421	2.897.577
Other Payables		338.097	204.832
<i>Other Payables To Third Parties</i>	6	338.097	204.832
Deferred Income	8	2.181.554	1.194.485
Derivative Financial Instruments	26	-	493.869
Short-Term Provisions		6.517.654	6.230.604
<i>Short-Term Provisions For Employee Benefits</i>	15	2.249.348	2.749.131
<i>Other Short-Term Provisions</i>	13	4.268.306	3.481.473
Other Current Liabilities	17	1.283.514	691.762
<b>Non-Current Liabilities</b>		<b>270.460.969</b>	<b>219.600.369</b>
Long-Term Borrowings	27	264.613.574	214.676.800
Other Payables		28.845	28.845
<i>Other Payables To Third Parties</i>	6	28.845	28.845
Long-Term Provisions		5.818.550	4.894.724
<i>Long-Term Provisions For Employee Benefits</i>	15	5.818.550	4.894.724
<b>EQUITY</b>		<b>146.728.669</b>	<b>131.340.174</b>
Share Capital	18	33.000.000	33.000.000
Adjustments To Share Capital	18	980.882	980.882
Restricted Reserves Appropriated From Profit	18	5.666.104	4.184.074
Other Comprehensive Income or Expenses that will not be Reclassified Subsequently to Profit or Loss		842.853	228.305
<i>Foreign Currency Translation Differences</i>		842.853	228.305
Other Comprehensive Income or Expenses that may be Reclassified Subsequently to Profit or Loss		(2.920.778)	(2.977.566)
<i>Loss on Remeasurement of     Defined Benefit Plans</i>		(2.920.778)	(2.977.566)
Retained Earnings		94.442.449	55.915.527
Net Profit for the Year		14.696.757	40.008.952
<b>Non-Controlling Interests</b>		<b>20.402</b>	<b>-</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>645.076.970</b>	<b>543.231.473</b>

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

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

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

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

	Notes	Audited Current Period 1 January - 31 December 2017	Audited Prior Period 1 January - 31 December 2016
Revenue	19	426.705.590	337.777.906
Cost of Sales (-)	19	(342.784.156)	(266.786.869)
<b>GROSS PROFIT</b>		<b>83.921.434</b>	<b>70.991.037</b>
General Administrative Expenses (-)	20	(14.195.302)	(12.276.303)
Marketing Expenses (-)	20	(33.909.602)	(25.645.624)
Research and Development Expenses (-)	20	(5.017.347)	(4.049.488)
Other Income from Operating Activities	21	9.929.353	6.025.749
Other Expenses from Operating Activities (-)	21	(685.992)	(2.195.444)
<b>OPERATING PROFIT</b>		<b>40.042.544</b>	<b>32.849.927</b>
Income from Investing Activities	22	78.039.768	57.124.496
Expenses from Investing Activities (-)	22	(36.209.872)	(3.488.175)
<b>OPERATING PROFIT BEFORE FINANCE EXPENSE</b>		<b>81.872.440</b>	<b>86.486.248</b>
Finance Income and Expenses, (net)	23	(68.462.364)	(43.253.086)
<b>PROFIT BEFORE TAX</b>		<b>13.410.076</b>	<b>43.233.162</b>
<b>Tax Expense</b>		<b>1.283.956</b>	<b>(3.224.210)</b>
- Current Tax Expense	24	-	(2.134.800)
- Deferred Tax Income / (Expense)	24	1.283.956	(1.089.410)
<b>PROFIT FOR THE YEAR</b>		<b>14.694.032</b>	<b>40.008.952</b>
<b>Profit / (Loss) for the Year Attributable to:</b>			
Non - controlling interests		(2.725)	-
Owners of the Company		14.696.757	40.008.952
		<b>14.694.032</b>	<b>40.008.952</b>
<b>Earnings Per Share</b>	25	<b>0,4453</b>	<b>1,2124</b>
<b>OTHER COMPREHENSIVE INCOME</b>		<b>671.336</b>	<b>161.374</b>
<b>Items that will not be Reclassified Subsequently to Profit or Loss</b>		<b>56.788</b>	<b>(66.931)</b>
Gains / (Loss) on Remeasurement of Defined Benefit Plans		70.985	(83.664)
Deferred Tax Profit Related to Other Comprehensive Income	24	(14.197)	16.733
<b>Items that will be Reclassified Subsequently to Profit or Loss</b>		<b>614.548</b>	<b>228.305</b>
Foreign Currency Translation Differences		614.548	228.305
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>15.365.368</b>	<b>40.170.326</b>

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

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017**

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

	Retained Earnings						Total Equity		
	Share Capital	Adjustments to Share Capital	Accumulated Other Comprehensive Income or Expenses that will be reclassified Subsequently to Profit or Loss	Accumulated Other Comprehensive Income or Expenses that will be reclassified Subsequently to Profit or Loss	Prior Year's Profit/Losses	Net Profit for the Year			
<b>Balances as of 1 January 2016</b>	33,000,000	980,882	(2,910,635)	-	2,829,996	36,851,242	21,890,996	-	92,642,481
Transfers	-	-	-	-	-	21,890,996	(21,890,996)	-	-
Transfers to the Legal Reserves	-	-	-	-	1,354,078	(1,354,078)	-	-	-
Effect of Business Combinations Involving Entities Under Common Control	-	-	-	-	-	585,274	-	-	585,274
Dividends	-	-	-	-	-	(2,057,907)	-	-	(2,057,907)
Total Comprehensive Income	-	-	(66,931)	228,305	-	-	40,008,952	-	40,170,326
<b>Balances as of 31 December 2016</b>	<b>33,000,000</b>	<b>980,882</b>	<b>(2,977,566)</b>	<b>228,305</b>	<b>4,184,074</b>	<b>55,915,527</b>	<b>40,008,952</b>	<b>-</b>	<b>131,340,174</b>
<b>Balances as of 1 January 2017</b>	33,000,000	980,882	(2,977,566)	228,305	4,184,074	55,915,527	40,008,952	-	131,340,174
Transfers	-	-	-	-	-	40,008,952	(40,008,952)	-	-
Transactions with Non-controlling Interests	-	-	-	-	-	-	-	23,127	23,127
Transfers to the Legal Reserves	-	-	-	-	1,482,030	(1,482,030)	-	-	-
Total Comprehensive Income	-	-	56,788	614,548	-	-	14,696,757	(2,725)	15,365,368
<b>Balances as of 31 December 2017</b>	<b>33,000,000</b>	<b>980,882</b>	<b>(2,920,778)</b>	<b>842,853</b>	<b>5,666,104</b>	<b>94,442,449</b>	<b>14,696,757</b>	<b>20,402</b>	<b>146,728,669</b>

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

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

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

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

	Notes	Audited Current Period 1 January- 31 December 2017	Audited Prior Period 1 January- 31 December 2016
<b>A. Cash Flows From Operating Activities</b>			
Profit for the Year		14.694.032	40.008.952
<b>Adjustments To Reconcile Profit For The Year</b>			
Adjustments Related to Depreciation and Amortization	9,10	11.089.272	8.707.892
Adjustment Related to Impairment (Reversal)			
<i>Adjustment Related to Impairment for Inventories</i>	7	(555.422)	561.054
<i>Adjustment Related to Impairment for Receivables</i>	5	47.322	634.773
Adjustment Related to Provisions			
<i>Adjustment Related to Provision for</i>			
<i>Employee Benefits</i>	15	3.955.294	4.605.136
<i>Adjustments Related to Legal Provision</i>	13	276.158	540.566
<i>Adjustment Related to Warranty Provision</i>	13	869.234	1.106.125
<i>Adjustment Related to Other Provision</i>	13	(332.908)	(328.503)
Adjustment Related to Interest Income and Expenses			
<i>Adjustment Related to Interest Income</i>	22,23,31	(20.010.021)	(13.204.843)
<i>Adjustment Related to Interest Expenses</i>	23	12.555.838	8.565.828
<i>Financial Income from Terms of Sales</i>	5,21	(666.449)	565.437
<i>Deferred Financial Expense from Term Receives</i>	5,21	381.503	68.982
Adjustment Related to Unrealized			
Foreign Currency Exchange Differences		52.293.936	30.527.351
Adjustments Related to Fair Value Gains			
<i>Adjustment Related to Fair Value of</i>			
<i>Financial Instrument Gain</i>	22	(1.984.063)	(16.680.095)
<i>Adjustment Related to Fair Value of</i>			
<i>Derivative Instrument Gain</i>		(1.894.037)	(157.700)
Adjustment Related to Tax (Income) / Expense	24	(1.283.956)	3.224.210
Adjustment Related to Gain on			
Disposal of Non-current Assets			
<i>Adjustment Related to Gain on</i>			
<i>Disposal of Property, Plant and Equipment</i>			
<i>and Intangible Assets</i>	21	(179.732)	(160.425)
		<u>54.561.969</u>	<u>28.575.788</u>
<b>Changes in the Working Capital</b>			
Adjustment Related to Increase in Inventories	7	(59.853.379)	6.350.418
Adjustment Related to Increase in Trade Receivables	3,5	8.204.289	(16.239.764)
Adjustment Related to Decrease / (Increase)			
Other Receivables from Operations	3,6,17	(24.461.737)	3.036.629
Adjustment Related to Increase / (Decrease) in Trade Payables	3,5	64.796.096	25.901
Decrease / (Increase) in Prepaid Expenses	8	(4.833.894)	(6.449.229)
Decrease in Deferred Income	8	987.069	(1.240.716)
Adjustment Related to Increase in Other Payables for Operations	6,15,17	1.194.861	1.156.290
		<u>(13.966.695)</u>	<u>(13.360.471)</u>
<b>Cash generated from operations</b>			
Payments for Employee Termination Benefits	15	(3.460.266)	(3.516.499)
Payments for Other Provisions	13	(25.651)	(433.810)
Tax Returns / (Payments)	24	3.030.849	(5.092.239)
		<u>54.834.238</u>	<u>46.181.721</u>

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

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

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

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

	Notes	Current Period 1 January- 31 December 2017	Prior Period 1 January- 31 December 2016
<b>B. Cash Flows From Investing Activities</b>			
Proceeds From Acquisition of Subsidiary which Control is Obtained		(592.733)	992.211
Gain on Sale of Property, Plant and Equipment and Intangible Assets			
<i>Gain on Sale of Property, Plant and Equipment and Intangible Assets</i>	9,21	439.409	215.622
Payments for Acquisition of Property, Plant and Equipment and Intangible Assets			
<i>Payments for Acquisition of Property, Plant and Equipment Payments for Acquisition of Intangible Assets</i>	9 10	(22.721.422) (7.099.213)	(16.906.139) (6.826.807)
Cash Outflow for Aquisition of Shares in Other Entities or Shares in Funds or Debt Instruments	22,27	91.752.990	(120.501.736)
Interest Received	22	18.193.267	12.238.972
		<u>79.972.298</u>	<u>(130.787.877)</u>
<b>C. Cash Flows From Financing Activities</b>			
Proceeds From Borrowings			
<i>Cash Inflow From Borrowings</i>		83.576.639	162.546.988
Cash Outflow of Borrowings			
<i>Cash Outflows on Repayment of Borrowings</i>		(138.611.954)	(108.470.681)
Cash Inflow / (Outflow) from Derivative Instruments		310.613	(207.564)
Interest Paid		(10.755.413)	(7.668.177)
Interest Received	23	1.384.397	965.871
Dividends Paid		-	(2.057.907)
		<u>(64.095.718)</u>	<u>45.108.530</u>
<b>Increase / (Decrease) in Cash and Cash Equivalents Before the Effect of Foreign Exchange Rate Changes (A+B+C)</b>		<u><b>70.710.818</b></u>	<u><b>(39.497.626)</b></u>
<b>D. Effects of Foreign Exchange Rate Changes on Cash and Cash Equivalents</b>		9.557.965	10.253.835
<b>Net (Decrease) / Increase on Cash and Cash Equivalents (A+B+C+D)</b>		80.268.783	(29.243.791)
<b>E. Cash and Cash Equivalents at the Beginning of the Year</b>	<b>31</b>	<u><b>71.070.817</b></u>	<u><b>100.314.608</b></u>
<b>Cash and Cash Equivalents at the End of the Year (A+B+C+D+E)</b>	<b>31</b>	<u><b>151.339.600</b></u>	<u><b>71.070.817</b></u>

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

# KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

### 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 2017, 39% portion of its shares is listed in ISE.

As of 31 December 2017, the average personnel number of the Group is 1.345 (2016:1.070).

#### The Company's Subsidiaries

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.

As per the board decision dated 20 February 2017, Metalfrio West Africa Ltd. was established with a capital of USD 10.000 and a participation of 97% in order to manage sales, marketing, and logistics operations in Nigeria and to improve the potential sales opportunities in West Africa. The Company stipulated NGN 3.100.000 of total NGN 3.007.000 (TL 36.107) capital of Metalfrio West Africa.

The Company's affiliate, Metalfrio West Africa Ltd., has acquired the 90% of the shares of Sabcool Ltd., a Nigerian company, with a cost of NGN 48 million (approximately USD 145.000). The shares were acquired in exchange of trade receivables instead of cash.

#### Approval of financial statements

Board of Directors has approved the consolidated financial statements and delegated authority for publishing it on 5 March 2018. General Assembly has the authority to modify the consolidated financial statements.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

## 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 reclassified 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 not made any reclassifications to the previous period financial statements.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

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

### 2.1 Basis of Preparation (cont'd)

#### Basis of Consolidation

Details of the Group's subsidiary as of 31 December 2017 and 31 December 2016 are as follows:

Subsidiaries	Location of Establishment and Operation	Functional Currency	Group's share in capital and voting rights ratio (%)	
			31 December 2017	31 December 2016
Metalfrío Solutions Poland SP. Z.o.o.	Poland	Euro	100%	100%
Metalfrío West Africa Ltd.	Nigeria	US Dollar	97%	-
Sabcool Ltd.	Nigeria	US Dollar	87,3%	-

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.

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



## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

## 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

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 Metalfrío Solutions Poland SP. Z.o.o. which sales and marketing of Klimasan's products in Poland firm its ultimate shareholder Metalfrío 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.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(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 in accounting policies are applied retrospectively and prior period consolidated financial statements are restated. There has been no significant changes in the accounting policies of the Company in the current year.

### 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 TFRSs that are mandatorily effective for the current year

Amendments to TAS 12	<i>Recognition of Deferred Tax Assets for Unrealized Losses</i> <sup>1</sup>
Amendments to TAS 7	<i>Disclosure Initiative</i> <sup>1</sup>
Annual Improvements to TFRS Standards 2014–2016 Cycle	<i>TFRS 12</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017.

#### **Amendments to TAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses***

This amendment clarifies the aspects of accounting for the deferred tax regarding the debt instruments measured at fair value.

The adoption of this amendment does not have any effect on the Group's consolidated financial statements.

#### **Amendments to TAS 7 *Disclosure Initiative***

These amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of borrowings and certain other financial liabilities. A reconciliation between the opening and closing balances of these items is provided in Note 27. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 27, the application of these amendments has had no impact on the Group's consolidated financial statements.

#### **Annual Improvements to TFRS Standards 2014–2016 Cycle**

**TFRS 12:** TFRS 12 states that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of TFRS 12 for such interests.

# KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(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)

##### a) Amendments to TFRSs that are mandatorily effective for the current year (cont'd)

##### **Annual Improvements to TFRS Standards 2014–2016 Cycle (cont'd)**

The application of these amendments has had no effect on the Group's consolidated financial statements as none of the Group's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

##### b) New and revised TFRSs 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	<i>Financial Instruments</i> <sup>1</sup>
TFRS 15	<i>Revenue from Contracts with Customers</i> <sup>1</sup>
Amendments to TFRS 10 and TAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to TFRS 2	<i>Classification and Measurement of Share-Based Payment Transactions</i> <sup>1</sup>
TFRS Interpretations 22	<i>Foreign Currency Transactions and Advance Consideration</i> <sup>1</sup>
Amendments to TAS 40	<i>Transfers of Investment Property</i> <sup>1</sup>
Annual Improvements to TFRS Standards 2014–2016 Cycle	<i>TFRS 1</i> <sup>1</sup> , <i>TAS 28</i> <sup>1</sup>
Amendments to TAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019.

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

TFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets / liabilities and for derecognition and for general hedge accounting.

Key requirements of TFRS 9:

- all recognized financial assets that are within the scope of TFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(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 TFRSs in issue but not yet effective (cont'd)

###### **TFRS 9 *Financial Instruments (cont'd)***

- in addition, under TFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, TFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under TAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- in relation to the impairment of financial assets, TFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under TAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in TAS 39. Under TFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed the impact of TFRS 9 to the Group's consolidated financial statements as follows:

###### Classification and measurement

Bills of exchange and debentures classified as held-to-maturity investments and loans carried at amortized cost as disclosed in (Note 5) and other receivables (Note 6): These are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortized cost upon the application of TFRS 9.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(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 TFRSs in issue but not yet effective (cont'd)

##### ***TFRS 9 Financial Instruments (cont'd)***

###### Impairment

Financial assets measured at amortized cost will be subject to the impairment provisions of TFRS 9. The Group expects to apply the simplified approach to recognize lifetime expected credit losses for its trade receivables, finance lease receivables and amounts due from customer under construction contracts as required or permitted by TFRS 9.

Procedures regarding the effects of the aforementioned amendment on Group's financial position and performance are in process.

##### ***TFRS 15 Revenue from Contracts with Customers***

TFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. TFRS 15 will supersede the current revenue recognition guidance including TAS 18 *Revenue*, TAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of TFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under TFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in TFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by TFRS 15.

*Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance were issued.

The Group recognizes revenue from the following major sources:

- Sale of industrial type cooler and freezers
- Warranties and after-sale services for products sold
- Sales of other materials, spare parts and trade goods

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

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

### 2.4 TFRS 15 Revenue from Contracts with Customers (cont'd)

#### b) New and revised TFRSs in issue but not yet effective (cont'd)

#### **TFRS 15 Revenue from Contracts with Customers (cont'd)**

Regarding the sales of industrial type refrigerators and freezers, and sales of other materials, spare parts and trade goods, revenue will be recognized for each of these performance obligations when control over the corresponding goods and services is transferred to the customer. This is similar to the current identification of separate revenue components under TAS 18.

The sales-related warranties cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Group will continue to account for the warranty in accordance with TAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with its current accounting treatment.

Apart from providing more extensive disclosures on the Group's revenue transactions, the directors do not anticipate that the application of TFRS 15 will have a significant impact on the financial position and/or financial performance of the Group.

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

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

#### **Amendments to TFRS 2 Classification and Measurement of Share-Based Payment Transactions**

The amendments clarify the standard in respect of the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

#### **TFRS Interpretation 22 Foreign Currency Transactions and Advance Consideration**

The interpretation addresses foreign currency transactions or parts of transactions where:

- There is consideration that is denominated or priced in a foreign currency;
- The entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- The prepayment asset or deferred income liability is non-monetary.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(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 TFRSs in issue but not yet effective (cont'd)

###### **IFRS Interpretation 22 *Foreign Currency Transactions and Advance Consideration (cont'd)***

The Interpretations Committee came up with the following conclusion:

- For the purpose of determining the exchange rate, the date of the transaction is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

###### **Amendments to TAS 40 *Transfers of Investment Property***

The amendments to TAS 40:

- Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
- The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

###### **Annual Improvements to TFRS Standards 2014–2016 Cycle**

- **TFRS 1:** Deletes the short-term exemptions in paragraphs E3–E7 of TFRS 1, because they have now served their intended purpose.
- **TAS 28:** Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

###### **Amendments to TAS 28 *Long-term Interests in Associates and Joint Ventures***

This amendment clarifies that an entity applies TFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The Group evaluates the effects of these standards, amendments and improvements, apart from the effects of TFRS 15 and TFRS 9 as explained above, on the consolidated financial statements.

## **KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

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

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

### **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.
  
- 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.



## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

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

### 2.5 Summary of Significant Accounting Policies (cont'd)

#### 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.

#### *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.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

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

##### 2.5 Summary of Significant Accounting Policies (cont'd)

###### **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.

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.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

## 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)

##### 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

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.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

#### 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)

###### 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.

###### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

###### 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.

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.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

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

### 2.5 Summary of Significant Accounting Policies (cont'd)

#### **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**

##### Financial assets

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

##### 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.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

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

##### 2.5 Summary of Significant Accounting Policies (cont'd)

###### Financial Instruments (cont'd)

###### Finansal varlıklar (cont'd)

###### *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.

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.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

#### 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. The cash and cash equivalents are classified under the category of "Loans and Receivables."

###### Recognition and 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. 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.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

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

### 2.5 Summary of Significant Accounting Policies (cont'd)

#### Financial Instruments (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 TAS 12 *Income Taxes* and TAS 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 TFRS 2 *Share-based Payment* at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with TFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.



## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

#### 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. The fair values of other contingent consideration is remeasured and the corresponding gain or loss is 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.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

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

### 2.5 Summary of Significant Accounting Policies (cont'd)

#### **Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under Note 3.

#### **Effect of Exchange Differences:**

##### Foreign Currency Balances and Transactions

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). Metalprio Solutions Poland SP. Z.o.o. uses Euro as its functional currency, Metalprio West Africa Ltd. and Sabcool Ltd. use Nigerian Naira (NGN) as their 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 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.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

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

### 2.5 Summary of Significant Accounting Policies (cont'd)

#### Effect of Exchange Differences (cont'd)

##### Foreign Currency Balances and Transactions (cont'd)

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 Subsidiaries and Joint Ventures 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).

#### Earnings Per Share

Earnings per share disclosed in the consolidated statement of comprehensive income 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 balance sheet 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.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

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

##### 2.5 Summary of Significant Accounting Policies (cont'd)

###### **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.

###### **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.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

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

##### 2.5 Summary of Significant Accounting Policies (cont'd)

###### **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.

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.

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 to recover or settle the carrying amount of its assets and liabilities at the reporting date.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

## 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 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.

#### 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:

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

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

##### 2.6 Critical Accounting Judgments and Key Sources of Estimation Uncertainty (cont'd)

###### 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 2017, the Group's doubtful trade receivables provision is TL 13.478.602 in the statement of financial position (31 December 2016: TL 11.476.342).

###### 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. 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.

###### Income Tax

The Group operates in a variety of tax jurisdictions and is liable to tax legislation and tax laws that apply in these countries. Significant estimates are used in determining the Group's income tax provision. Upon the final tax outcomes, the amounts actualised may differ from those anticipated and hence an amendment to the income tax provision recorded as of the balance sheet date, may be necessary.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

#### 3. BUSINESS COMBINATIONS

##### Subsidiaries acquired

As per the board decision dated 20 February 2017, Metalfrio West Africa Ltd. was established with a capital of USD 10.000 and a participation of 97% in order to manage sales, marketing, and logistics operations in Nigeria and to improve the potential sales opportunities in West Africa. The Company stipulated NGN 3.100.000 of total NGN 3.007.000 (TL 36.107) capital of Metalfrio West Africa.

The Company's affiliate, Metalfrio West Africa Ltd., has acquired the 90% of the shares of Sabcool Ltd., a Nigerian company, with a cost of NGN 48 million (approximately USD 145.000). The shares were acquired in exchange of trade receivables instead of cash.

	<u>Principal Activity</u>	<u>Date of Acquisition</u>	<u>Proportion of Interest Acquired (%)</u>	<u>Consideration Transferred</u>
Sabcool Ltd.	Industrial Type Cooler and Freezer Sales	28 December 2017	90	592.640
				<u>592.640</u>

##### Assets acquired and liabilities assumed at acquisition date

	<u>Sabcool Ltd.</u>
<b>Current Asset</b>	<b>11.528.669</b>
Trade Receivables	2.189.946
<i>Trade Receivables from Related Parties</i>	2.083.629
<i>Trade Receivables from Third Parties</i>	106.317
Other Receivables	129.957
<i>Other Receivables from Third Parties</i>	129.957
Other Current Assets	9.208.766
<b>Non-Current Assets</b>	<b>129.491</b>
Property, Plant and Equipment	129.491
<b>Short - term Liabilities</b>	<b>11.425.955</b>
Trade Payables	11.425.955
<i>Trade Payables to Related Parties</i>	9.342.326
<i>Trade Payables to Third Parties</i>	2.083.629
	<u>232.205</u>



## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

#### 3. BUSINESS COMBINATIONS (cont'd)

##### Subsidiaries acquired (cont'd)

##### Goodwill arising on acquisition

Goodwill arose from the acquisition of Sabcool Ltd. because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the subsidiary acquired. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

	<u>Sabcool Ltd.</u>
Consideration transferred	592.640
Less: Fair value of identifiable net asset acquired (90%)	(208.985)
Goodwill	<u><u>383.655</u></u>

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

#### 4. RELATED PARTY DISCLOSURES

Transactions between the Group and its subsidiaries, 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. The receivables are unsecured in nature and bear no interest.

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 2017 and 31 December 2016 are disclosed below:

	31 December 2017		
	Receivables		Payables
	Trade	Non-trade	Trade
LLC Klimasan Ukraine	4.979.218	-	-
OOO Metalfrio Solutions Russia	879.380	-	-
P.T. Metalfrio Solutions Indonesia	661.688	253.919	18.909
Metalfrio Solutions S.A. Brazil	-	-	-
Metalfrio Solutions Soğutma Sanayi ve Ticaret A.Ş.	-	33.213.365	12.959
Metalfrio Solutions A/S Denmark	-	-	22.961
Metalfrio Solutions Mexico S.A.Dec.V.	283.225	-	-
Rome Investment Management LTD.	-	-	103.939
	<u>6.803.511</u>	<u>33.467.284</u>	<u>158.768</u>
	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.	-	18.211.999	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
	<u>6.265.962</u>	<u>18.211.999</u>	<u>142.210</u>

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

#### 4. RELATED PARTY DISCLOSURES (cont'd)

Transactions with related parties	1 January - 31 December 2017					
	Purchases	Sales	Interest income	Rent income	Commission expenses	Other
LLC Klimasan Ukraine	-	11.745.011	-	-	-	-
OOO Metalfrio Solutions Russia	196.798	9.240.886	-	-	-	-
Pt. Metalfrio Solutions Indonesia	23.451	1.967.521	126.055	-	18.926	-
Metalfrio Solutions Mexico S.A.Dec.V.	-	423.735	-	-	-	88.958
Metalfrio Solutions A/S Denmark	38.131	-	-	-	185.420	-
Metalfrio Solutions	-	-	-	-	-	-
Soğutma Sanayi ve Ticaret A.Ş.	-	20.924	1.341.851	8.982	-	163.810
Metalfrio Solutions S.A. Brazil	-	-	-	-	-	-
Rome Investment Management LTD.	-	-	-	-	226.707	-
	258.380	23.398.077	1.467.906	8.982	431.053	88.958

  

Transactions with related parties	1 January - 31 December 2016					
	Purchases	Sales	Interest income	Rent income	Commission 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	108.169

(\* ) 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.

# KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(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 2017 is 4.70-5.50% (2016: 5%).

Details of loans to related parties as at 31 December 2017 and 31 December 2016 are disclosed below:

31 December 2017				
	Original Currency	Maturity	Interest Rate	Short-term Debt
<b>Loans provided to related parties:</b>				
Metalfrío Solutions Soğutma ve Ticaret A.Ş.	Euro	27 February 2018	4,7%	3.000.000
Metalfrío Solutions Soğutma ve Ticaret A.Ş.	US Dollar	30 June 2018	5,0%	5.000.000
P.T. Metalfrío Solutions Indonesia	US Dollar	13 February 2018	5,5%	17.000
P.T. Metalfrío Solutions Indonesia	US Dollar	03 March 2018	5,5%	50.000

31 December 2016				
	Original Currency	Maturity	Interest Rate	Short-term Debt
<b>Loans provided to related parties:</b>				
Metalfrío Solutions Soğutma ve Ticaret A.Ş.	US Dollar	30 June 2018	5,0%	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 2017	31 December 2016
Salaries and other short-term benefits	5.549.443	5.000.972
	<u>5.549.443</u>	<u>5.000.972</u>

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(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 2017 and 31 December 2016 are as follows:

<u>Short-term Trade Receivables</u>	<u>31 December 2017</u>	<u>31 December 2016</u>
Trade receivables	67.772.350	76.406.065
Trade receivables from related parties (Note 4)	6.803.511	6.265.962
Notes receivable	15.798.939	11.716.178
Allowance on doubtful receivables (-)	(13.478.602)	(11.476.342)
Unaccrued finance expense on trade receivables (-)	(834.370)	(640.692)
Unaccrued finance expense on notes receivable (-)	(400.332)	(207.331)
	<u>75.661.496</u>	<u>82.063.840</u>

The average credit period on sales of goods is 67 days (31 December 2016: 76 days).

The details of the Group's long-term trade receivables as of 31 December 2017 and 31 December 2016 are as follows:

<u>Long-term Trade Receivables</u>	<u>31 December 2017</u>	<u>31 December 2016</u>
Notes receivable	-	46.000
Unaccrued finance expense on notes receivable (-)	-	(5.176)
	<u>-</u>	<u>40.824</u>

Explanations about the nature and level of foreign currency risks related to the Group's trade receivables are provided in Note 28.

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 2017 and 31 December 2016 are as follows:

<u>Movement of allowance for doubtful receivables</u>	<u>2017</u>	<u>2016</u>
Balance at 1 January	(11.476.342)	(9.348.760)
Charge for the period	(47.322)	(634.773)
Foreign currency exchange differences	(2.309.414)	(1.492.809)
Amounts recovered during the year	354.476	-
Balance at 31 December	<u>(13.478.602)</u>	<u>(11.476.342)</u>

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

(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 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
<u>Short-term Trade Payables</u>		
Trade payables	136.152.310	59.946.817
Trade payables to related parties (Note 4)	158.768	142.210
Unaccrued finance income for trade payables (-)	(790.163)	(123.714)
	<u>135.520.915</u>	<u>59.965.313</u>

Explanations about the nature and level of foreign currency risks related to the Group's trade payables are provided in Note 28.

The average credit period on trade payables is 103 days (31 December 2016: 76 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 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
<u>Other Short-term Receivables</u>		
Receivables from related parties (Note 4)	33.467.284	18.211.999
Receivables from customs	1.263.916	812.631
Receivables from personnel	421.431	289.745
Other receivables	380.314	317.586
	<u>35.532.945</u>	<u>19.631.961</u>
<u>Other Long-term Receivables</u>		
Guarantee and deposits given	12.564	12.564
	<u>12.564</u>	<u>12.564</u>

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(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 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
<b>Other Short-term Payables</b>		
Other liabilities	338.097	204.832
	<u>338.097</u>	<u>204.832</u>
	31 December 2017	31 December 2016
<b>Other Long-term Payables</b>		
Guarantee and deposits received	28.845	28.845
	<u>28.845</u>	<u>28.845</u>

**7. INVENTORIES**

The details of the inventories as of 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
Raw materials	49.990.137	23.527.019
Finished goods	47.301.380	17.207.319
Work in progress	3.327.508	1.453.803
Other inventories	1.059.714	884.307
Trade goods	1.838.542	591.454
Allowance for impairment on inventory (-)	(61.948)	(617.370)
	<u>103.455.333</u>	<u>43.046.532</u>

The cost of inventories recognized as expense and included in cost of sales amounted to TL 261.784.802 (31 December 2016: TL 205.154.976).

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

	2017	2016
<b>Movement of allowance for impairment on inventory</b>		
Balance at 1 January	(617.370)	(56.316)
(Charge) / reversal for the year, net	555.422	(561.054)
Balance at 31 December	<u>(61.948)</u>	<u>(617.370)</u>

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**8. PREPAID EXPENSES AND DEFERRED INCOME**

	31 December 2017	31 December 2016
<b>Short-term Prepaid Expenses</b>		
Advances given to suppliers	12.374.737	9.184.921
Prepaid expenses to customs	1.227.939	-
Business advances given	412.952	764.993
Short-term prepaid expenses	949.112	422.453
	<u>14.964.740</u>	<u>10.372.367</u>
	31 December 2017	31 December 2016
<b>Long-term Prepaid Expenses</b>		
Advances given for fixed asset purchases	398.071	227.108
Long-term prepaid expenses	83.767	13.209
	<u>481.838</u>	<u>240.317</u>
	31 December 2017	31 December 2016
<b>Short-term Deferred Income</b>		
Advances received	2.153.518	1.194.485
Deferred income	28.036	-
	<u>2.181.554</u>	<u>1.194.485</u>



**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

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

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

**9. PROPERTY, PLANT AND EQUIPMENT**

The movement for property, plant and equipment as of 31 December 2017 is as follows:

<u>Cost Value</u>	Land improvements	Land	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other tangible assets	Leasold Improvements	Construction in progress	Total
Opening balance as of 1 January 2017	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
Additions	-	107.662	41.336	2.333.073	-	1.869.183	155.435	91.638	18.123.095	22.721.422
Assets acquired by acquisition	-	-	-	-	3.704	125.787	-	-	-	129.491
Disposals	-	-	-	(2.327.528)	-	(95.322)	-	-	(193.051)	(2.615.901)
Transfers from construction in progress	-	-	360.398	13.923.843	-	671.429	-	211.726	(15.518.391)	(350.995)
Closing balance as of 31 December 2017	2.437.563	718.195	18.983.222	79.090.472	5.362	14.975.878	813.849	401.344	10.194.171	127.620.056
<b>Accumulated Depreciation</b>										
Opening balance as of 1 January 2017	-	(318.400)	(3.534.756)	(43.652.791)	(1.658)	(9.002.165)	(427.524)	(44.089)	-	(56.981.383)
Charge for the year	-	(45.845)	(471.984)	(4.450.191)	-	(1.213.198)	(47.218)	(57.327)	-	(6.285.763)
Disposals	-	-	-	2.276.943	-	95.322	-	-	-	2.372.265
Closing balance as of 31 December 2017	-	(364.245)	(4.006.740)	(45.826.039)	(1.658)	(10.120.041)	(474.742)	(101.416)	-	(60.894.881)
Net carrying value as of 31 December 2017	2.437.563	353.950	14.976.482	33.264.433	3.704	4.855.837	339.107	299.928	10.194.171	66.725.175

TL 5.258.729 (31 December 2016: TL 4.147.274) of depreciation and amortization expenses was allocated to cost of goods sold, TL 322.061 (31 December 2016: TL 263.551) to marketing expenses, TL 509.772 (31 December 2016: TL 362.112) to administrative expenses and TL 4.998.710 (31 December 2016: TL 3.934.955) to research and development.

As of 31 December 2017, the total amount of insurance on plant, property and equipment is TL 177.005.450 (31 December 2016: TL 105.459.098).

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

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

(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 2016 is as follows:

<u>Cost Value</u>	Land	Land improvements	Land	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other tangible assets	Leasehold improvements	Construction in progress	Total
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	
<u>Accumulated Depreciation</u>											
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	

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

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

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

	<u>Useful Life</u>
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 2017 is as follows:

	<u>Capitalized research and development expenses</u>	<u>Rights</u>	<u>Construction in progress</u>	<u>Total</u>
<b>Cost value</b>				
Opening balance as of 1 January 2017	29.121.017	3.275.162	1.040.094	33.436.273
Additions	-	105.104	6.994.109	7.099.213
Disposals	-	(22.916)	-	(22.916)
Transfers from construction in progress	5.316.824	350.995	(5.316.824)	350.995
Closing balance as of 31 December 2017	<u>34.437.841</u>	<u>3.708.345</u>	<u>2.717.379</u>	<u>40.863.565</u>
<b>Accumulated amortization</b>				
Opening balance as of 1 January 2017	(15.240.602)	(2.939.934)	-	(18.180.536)
Charge for the year	(4.472.723)	(330.786)	-	(4.803.509)
Disposals	-	6.875	-	6.875
Closing balance as of 31 December 2017	<u>(19.713.325)</u>	<u>(3.263.845)</u>	<u>-</u>	<u>(22.977.170)</u>
Carrying value as of 31 December 2017	<u>14.724.516</u>	<u>444.500</u>	<u>2.717.379</u>	<u>17.886.395</u>

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.

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**10. INTANGIBLE ASSETS (cont'd)**

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

	Capitalized research and development expenses	Rights	Construction in progress	Total
<b>Cost value</b>				
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
<b>Accumulated amortization</b>				
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

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

**11. GOODWILL**

	31 December 2017	31 December 2016
<b>Cost value</b>		
Opening balance	-	-
Additional amounts recognised from business combinations occurring during the year	383.655	-
Closing balance	383.655	-

# KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

### 12. 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 4.773.224 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 the 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 for Investments no. 2012/3305, which was updated with the Council of Ministers Decree No. 2017/9917 published in Official Gazette dated 22/02/2017 and numbered 29987, for the investment expenditures realized between 1/1/2017 and 31/12/2017, the investment contribution rate used in tax reduction incentive has been raised from 30% to 45%. Hence, the corporate tax reduction is applied at a rate of a hundred percent and the rate to be applied to the profits from the investor's other activities in the investment period of the investment contribution of the investor's contribution during the investment period is applied at a rate of a hundred percent. As of the 4th temporary tax period of the year 2017, the entity was not subject to the application of the discounted corporation tax since the temporary tax assessment did not occur.

### 13. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

The details of the Group's other short-term provisions as of 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
Warranty provisions (i)	3.226.783	2.357.549
Legal provisions (ii)	995.887	745.380
Other provisions	45.636	378.544
	<u>4.268.306</u>	<u>3.481.473</u>

(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 2017.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

#### 13. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

The details of the movement for warranty provision as of 31 December 2017 and 31 December 2016 are as follows:

	2017	2016
Balance at 1 January	2.357.549	1.251.424
Charge for the year, net	869.234	1.106.125
Provision at 31 December	<u>3.226.783</u>	<u>2.357.549</u>

The movement for legal provision as of 31 December 2017 and 31 December 2016 are as follows:

	2017	2016
Balance at 1 January	745.380	638.624
Payments	(25.651)	(433.810)
Charge for the year	276.158	540.566
Provision at 31 December	<u>995.887</u>	<u>745.380</u>

#### 14. COMMITMENTS

##### Guarantees-Pledge-Mortgage ("GPM")

The Group's GPM position as at 31 December 2017 and 31 December 2016 is as follows:

31 December 2017	TL Equivalent	Euro	US Dollar	TL
The total of GPM that are given in the name of its own legal personality	185.057.683	38.988.767	1.917.270	1.772.155
<i>- Guarantees</i>	<u>185.057.683</u>	<u>38.988.767</u>	<u>1.917.270</u>	<u>1.772.155</u>
<b>Total</b>	<u>185.057.683</u>	<u>38.988.767</u>	<u>1.917.270</u>	<u>1.772.155</u>

31 December 2016	TL Equivalent	Euro	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
<i>- Guarantees</i>	<u>228.342.207</u>	<u>60.018.308</u>	<u>1.045.000</u>	<u>2.002.722</u>
<b>Total</b>	<u>228.342.207</u>	<u>60.018.308</u>	<u>1.045.000</u>	<u>2.002.722</u>

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

#### 14. COMMITMENTS (cont'd)

The Group's guarantees position as at 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017	31 December 2016
Eximbank loans (*)	164.427.465	176.151.616
Ziraat Bank International A.G. (**)	10.541.938	46.510.305
Suppliers	8.356.125	3.519.200
Customers	511.560	1.023.120
Industrial Zone	368.560	368.560
Custom Offices	110.763	144.066
Other	741.271	625.340
<b>Total contingent liabilities</b>	<b>185.057.682</b>	<b>228.342.207</b>

(\*) 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.

#### 15. PROVISIONS OF EMPLOYEE TERMINATION BENEFITS

##### Payables related to employee benefits:

	31 December 2017	31 December 2016
Social security premiums payable	1.739.360	2.034.196
Due to personnel	1.628.061	863.381
	<b>3.367.421</b>	<b>2.897.577</b>

##### Short-term provisions for employee benefits:

	31 December 2017	31 December 2016
Provision for bonus	1.250.000	2.100.000
Unused vacation provision	999.348	649.131
	<b>2.249.348</b>	<b>2.749.131</b>

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

#### 15. PROVISIONS OF EMPLOYEE TERMINATION BENEFITS (cont'd)

As of 31 December 2017 and 31 December 2016, bonus provision movement is as follows:

	2017	2016
Balance at January 1	2.100.000	1.800.000
Payments	(1.500.056)	(1.537.534)
Charge for the year	650.056	1.837.534
Provision at 31 December	<u>1.250.000</u>	<u>2.100.000</u>

As of 31 December 2017 and 31 December 2016, unused vacation provision movement is as follows:

	2017	2016
Balance at January 1	649.131	565.324
Payments	(1.015.177)	(907.650)
Charge for the year	1.365.394	991.457
Provision at 31 December	<u>999.348</u>	<u>649.131</u>

#### **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 4.732,48 for each period of service at 31 December 2017 (2016: TL 4.297,21).

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 2017, 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 4,21% real discount rate (31 December 2016: 4,23%) calculated by using 7,0% annual inflation rate and 11,50% discount rate. Estimated amount of retirement pay not paid due to voluntary leaves is also taken into consideration as, 6,29% for employees with 0-15 years of service, and 100% for those with 16 or more years of service. Ceiling amount for provision for retirement pay is revised semiannually, and the ceiling amount of TL 5.001,76 which is in effect since 1 January 2017 is used in the calculation of Group's provision for retirement pay liability (1 January 2017: TL 4.426,16).



## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

#### 15. PROVISIONS OF EMPLOYEE TERMINATION BENEFITS (cont'd)

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

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 787.036 (TL 659.649).
- 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 156.387 (TL 177.639)

##### Provision for retirement pay liability (cont'd)

As of 31 December 2017 and 31 December 2016, the provision for retirement pay movement is as follows:

	<u>2017</u>	<u>2016</u>
Provision at 1 January	4.894.724	4.106.230
Service cost	1.733.025	1.590.858
Interest cost	206.819	185.287
Termination benefits paid	(945.033)	(1.071.315)
Actuarial (gain)/loss	<u>(70.985)</u>	<u>83.664</u>
Provision as of 31 December	<u><u>5.818.550</u></u>	<u><u>4.894.724</u></u>

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**16. EXPENSES BY NATURE**

	1 January- 31 December 2017	1 January- 31 December 2016
Raw material expenses	(293.752.568)	(195.786.330)
Personnel expenses	(59.201.032)	(46.158.684)
Production Overheads	(14.094.732)	(10.690.190)
Depreciation and amortisation expenses (Note 9,10)	(11.089.272)	(8.707.892)
Transportation expenses	(7.585.114)	(5.598.518)
Warranty expenses	(5.423.249)	(4.305.547)
Rent expenses	(3.983.748)	(2.167.556)
Outsource expenses	(2.124.131)	(965.451)
Travel expenses	(2.054.129)	(1.325.584)
Consultancy expenses	(2.398.455)	(1.302.441)
Advertising expenses	(1.816.191)	(1.566.395)
Attendance fee of board of directors	(660.000)	(684.000)
Insurance expenses	(617.693)	(481.000)
Tax and other legal dues	(313.019)	(755.202)
Customs expenses	(433.311)	(333.062)
Training expense	(326.796)	(280.539)
Change in work in progress inventory	1.873.705	(1.537.515)
Change in finished goods inventory	30.094.061	(7.715.120)
Other	(22.000.733)	(18.397.258)
	<u>(395.906.407)</u>	<u>(308.758.284)</u>

**17. OTHER ASSETS AND LIABILITIES**

The details of the other current assets as of 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
<u>Other Current Assets</u>		
Restricted bank deposits	9.208.766	-
VAT return	4.515.838	2.009.029
Deferred VAT	6.625.657	525.878
Other current assets	158.798	74.676
	<u>20.509.059</u>	<u>2.609.583</u>

The details of the other current liabilities as of 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
<u>Other Short-term Liabilities</u>		
Excise tax payable	1.250.492	691.762
VAT payable	33.022	-
	<u>1.283.514</u>	<u>691.762</u>

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

#### 18. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

##### a) Share Capital and Share Capital Adjustment Differences

As of 31 December 2017 and 31 December 2016, the share capital held is as follows:

Shareholders	Share Type	%	31 December 2017		31 December 2016	
				%		%
Metalfrío Solutions Soğutma Sanayi ve Tic. A.Ş.	A	43,4	14.357.540	43,4	14.357.540	
Metalfrío Solutions Soğutma Sanayi ve Tic. A.Ş.	B	8,8	2.887.500	8,8	2.887.500	
Metalfrío 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	

(\*) Metalfrío 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 2017, the paid-in capital of the Group comprised 3.300.000.000 shares issued TL 0,01 each (31 December 2016: 3.300.000.000). The privileges given to ordinary shares are as follows:

At 31 December 2017 and 31 December 2016, 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.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

#### 18. 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.

The Group's net profit is TL 40.008.952 in the financial statements for the year ended 31 December 2016 which are prepared in accordance with the requirements of Capital Markets Law and Capital Markets Board ("CMB"). After deducting the primary reserve amount of 1.482.030, net profit is TL 38.526.922. The decision of not distributing the net profit but instead reserving (amounting to TL 38.526.922) as retained earnings is submitted to the approval of the Ordinary General Assembly. In consequence of the voting, the above-mentioned decision was accepted.

##### b) Restricted Reserves Appropriated from Profit

As of 31 December 2017 and 31 December 2016, restricted reserves appropriated from profit is as follows:

	31 December 2017	31 December 2016
Restricted reserves seperated from profit	5.666.104	4.184.074
	<u>5.666.104</u>	<u>4.184.074</u>

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**19. REVENUE****a) Sales**

	1 January- 31 December 2017	1 January- 31 December 2016
Domestic sales	218.094.135	148.409.528
Export sales	193.804.193	164.323.764
Other sales (*)	29.515.682	33.325.142
Sales deductions and discounts (**)	(14.708.420)	(8.280.528)
	<u>426.705.590</u>	<u>337.777.906</u>

(\*) 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 2017	1 January- 31 December 2016
Raw materials expenses	(293.752.568)	(195.786.330)
Personnel expenses	(42.749.664)	(31.493.059)
Production Overheads	(14.094.732)	(10.690.190)
Depreciation and amortization expenses (Note 9,10)	(5.258.729)	(4.147.274)
Change in finished goods inventories (Note 7)	30.094.061	(7.715.120)
Change in work in progress inventories (Note 7)	1.873.705	(1.537.515)
Other	(18.896.229)	(15.417.381)
	<u>(342.784.156)</u>	<u>(266.786.869)</u>

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

	1 January- 31 December 2017	1 January- 31 December 2016
General administrative expenses (-)	(14.195.302)	(12.276.303)
Marketing and sales expenses (-)	(33.909.602)	(25.645.624)
Research and development expenses (-)	(5.017.347)	(4.049.488)
	<u>(53.122.251)</u>	<u>(41.971.415)</u>

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**20. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES AND RESEARCH  
AND DEVELOPMENT EXPENSES (cont'd)****a) General administrative expenses**

	1 January- 31 December 2017	1 January- 31 December 2016
Payroll expenses	(7.744.582)	(7.004.211)
Consultancy expenses	(1.851.857)	(1.113.344)
Attendance fee of board of directors	(660.000)	(684.000)
Outsource expenses	(649.000)	(560.771)
Taxes and other legal dues	(313.019)	(755.202)
Depreciation and amortization expenses (Note 9, 10)	(509.772)	(362.112)
Travel expenses	(463.722)	(189.246)
Rent expenses	(434.557)	(256.667)
Insurance expenses	(227.475)	(175.651)
Training expenses	(196.130)	(125.992)
Other	(1.145.188)	(1.049.107)
	<u>(14.195.302)</u>	<u>(12.276.303)</u>

**b) Marketing expenses**

	1 January- 31 December 2017	1 January- 31 December 2016
Payroll expenses	(8.706.786)	(7.661.414)
Transportation expenses	(7.585.114)	(5.598.518)
Warranty expenses	(5.423.249)	(4.305.547)
Rent expenses	(3.549.191)	(1.910.889)
Advertising expenses	(1.816.191)	(1.566.395)
Outsource expenses	(1.475.131)	(404.680)
Travel expenses	(1.590.407)	(1.136.338)
Consultancy expenses	(546.598)	(189.097)
Custom expenses	(433.311)	(333.062)
Insurance expenses	(390.218)	(305.349)
Depreciation and amortization expenses (Note 9, 10)	(322.061)	(263.551)
Training expenses	(130.666)	(154.547)
Other	(1.940.679)	(1.816.237)
	<u>(33.909.602)</u>	<u>(25.645.624)</u>

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**20. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES AND RESEARCH  
AND DEVELOPMENT EXPENSES (cont'd)****c) Research and development expenses**

	1 January- 31 December 2017	1 January- 31 December 2016
Depreciation and amortization expenses (Note 9, 10)	(4.998.710)	(3.934.955)
Other	(18.637)	(114.533)
	<u>(5.017.347)</u>	<u>(4.049.488)</u>

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.

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

The details of other income from operating activities for the years ended 31 December 2017 and 2016 are as follows:

	1 January- 31 December 2017	1 January- 31 December 2016
Foreign currency gains from operations, net	6.248.787	2.282.319
Income from scrap sales	1.237.834	769.266
Income from tax incentives related to R&D	905.908	833.799
Provisions released (Note 5)	354.476	-
Trade receivables time recovery interest income	124.853	592.198
Gain on fixed asset sales	179.732	160.425
Discount income/(expense) , net	284.946	-
Other income	592.817	1.387.742
	<u>9.929.353</u>	<u>6.025.749</u>

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

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

The details of other expenses from operating activities for the years ended 31 December 2017 and 31 December 2016 are as follows:

	1 January- 31 December 2017	1 January- 31 December 2016
Provision expense for doubtful receivables (Note 5)	(47.322)	(634.773)
Discount income/(expense) , net	-	(634.419)
Legal provision	(276.158)	(540.566)
Other expenses from operations	(362.512)	(385.686)
	<u>(685.992)</u>	<u>(2.195.444)</u>

#### 22. INCOME AND EXPENSES FROM INVESTING ACTIVITIES

The details of other income from investing activities for the years ended 31 December 2017 and 2016 are as follows:

##### Income from investing activities

	1 January- 31 December 2017	1 January- 31 December 2016
Increase in value of financial investments (*)	38.193.935	20.168.270
Interest income	18.193.267	12.238.972
Foreign exchange gains related to investing activities, net	21.652.566	24.687.079
Dividend income	-	30.175
	<u>78.039.768</u>	<u>57.124.496</u>

##### Expenses from investing activities

	1 January- 31 December 2017	1 January- 31 December 2016
Decrease in value of financial investments (*)	(36.209.872)	(3.488.175)
	<u>(36.209.872)</u>	<u>(3.488.175)</u>

(\*) 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.



**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**23. FINANCE INCOME AND EXPENSES**

	1 January- 31 December 2017	1 January- 31 December 2016
Foreign exchange expenses related to financing activities, net	(53.318.494)	(32.637.338)
Interest expenses on bank loans (-)	(12.555.838)	(8.565.828)
Interest income	1.384.397	965.871
Other finance expenses (-)	(3.972.429)	(3.015.791)
	<u>(68.462.364)</u>	<u>(43.253.086)</u>

**24. INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)**

	31 December 2017	31 December 2016
<i>Current tax asset</i>		
Current corporate tax provision	-	2.134.800
Less: Prepaid taxes and funds	-	(5.165.649)
	<u>-</u>	<u>(3.030.849)</u>
<i>Income tax recognized in profit or loss</i>		
	1 January- 31 December 2017	1 January- 31 December 2016
Current tax expense	-	(2.134.800)
Deferred tax (expense) / income relating to origination and reversal of temporary differences	1.283.956	(1.089.410)
Total tax expense	<u>1.283.956</u>	<u>(3.224.210)</u>
<i>Deferred tax</i>	1 January- 31 December 2017	1 January- 31 December 2016
Recorded directly in equity :		
- Actuarial gain or loss	14.197	(16.733)
	<u>14.197</u>	<u>(16.733)</u>

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

#### 24. 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.

Metalfrio Poland SP. Z.o.o. operates in Poland and is subject to Poland corporate taxes. The effective tax rate in 2017 is 19% (2016: 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 28 February 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. . In addition, according to the Decree on State Aids for Investments no. 2012/3305, which was updated with the Council of Ministers Decree No. 2017/9917 published in Official Gazette dated 22/02/2017 and numbered 29987, for the investment expenditures realized between 1/1/2017 and 31/12/2017, the investment contribution rate used in tax reduction incentive has been raised from 30% to 45%. Hence, the corporate tax reduction is applied at a rate of a hundred percent and the rate to be applied to the profits from the investor's other activities in the investment period of the investment contribution of the investor's contribution during the investment period is applied at a rate of a hundred percent. As of the 4th temporary tax period of the year 2017, the entity was not subject to the application of the discounted corporation tax since the temporary tax assessment did not occur.

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

#### 24. 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.

Tax rate used in the calculation of deferred tax assets and liabilities was 22% over temporary timing differences expected to be reversed in 2018, 2019 and 2020, and 20% over temporary timing differences expected to be reversed in 2021 and the following years (2016: 20%).

Movement of deferred tax assets and liabilities for the period ended 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
<u>Deferred tax assets / (liabilities):</u>		
Deferred tax asset arising from investment incentive discount	3.635.777	-
Deferred tax asset arising from Research and Development incentive discount	1.384.065	-
Unused tax losses recognized as deferred tax assets	1.242.949	-
Provision for employment termination benefits	1.163.710	978.945
Provision for warranty	645.522	471.510
Seasonality adjustments and impairment of inventory	335.676	312.723
Adjustments related to unrealized finance expense for trade receivables and notes receivables	271.634	170.640
Adjustments for the other provisions	244.140	204.975
Provision for bonuses	275.000	420.000
Unused vacation provision	219.857	129.826
Legal provision adjustments	219.095	149.076
Adjustments related to the sales commission and rebates	96.162	220.858
Valuation differences on debentures and bonds	(2.591.599)	882.793
Depreciation adjustments for tangible assets and amortisation adjustments for intangible assets	(1.150.160)	(948.147)
Valuation differences of derivative instruments	(239.702)	98.774
Adjustments related to unrealized finance income for trade payables	(173.836)	(24.743)
Valuation difference of receivables in foreign exchange	-	1.079.814
Provision for doubtful receivables	-	141.929
Other	(122.372)	(102.814)
	<u>5.455.918</u>	<u>4.186.159</u>

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**24. INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (cont'd)****Deferred Tax (cont'd)**

Expiry dates of the unused tax losses are as follows:

	31 December 2017	31 December 2016
Expiring in 2022	6.214.745	-
	<u>6.214.745</u>	<u>-</u>

**Movement of deferred tax assets / (liability):**

	2017	2016
Opening balance as of 1 January	4.186.159	5.258.836
Charged to profit or loss	1.283.956	(1.089.410)
Charged to equity	(14.197)	16.733
Closing balance as of 31 December	<u>5.455.918</u>	<u>4.186.159</u>

**Reconciliation of the tax loss for the period with the profit for the period is as follows:**

	1 January- 31 December 2017	1 January- 31 December 2016
<b><u>Reconciliation of tax charge:</u></b>		
Profit before tax	13.410.076	43.233.162
Tax rate of 20% (2016: 20%)	2.682.015	8.646.632
Tax effects of:		
- revenue is exempt from taxation	(178.258)	(1.275.212)
- non-deductible expenses	158.742	149.438
- expenses that are subject to reduced corporate tax within the scope of investment incentives	(3.635.777)	(4.310.896)
- research and development incentives and other discounts	(1.384.065)	-
- tax rate change from 20% to 22%	78.717	-
- effects of different tax rates on the subsidiary 19%	-	5.957
- other	994.670	8.291
Income tax expense recognised in profit or loss	<u>(1.283.956)</u>	<u>3.224.210</u>

# KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

### 25. EARNINGS PER SHARE

The computation for the years ended 31 December 2017 and 2016 is as follows:

	1 January- 31 December 2017	1 January- 31 December 2016
<b>Earnings per share</b>		
Number of weighted average of ordinary sales which has TL 1 nominal value	33.000.000	33.000.000
<b>Net profit for the period</b>	<b>14.694.032</b>	<b>40.008.952</b>
Earnings per share	<b>0,4453</b>	<b>1,2124</b>

### 26. 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 2017		31 December 2016	
	Assets	Liabilities	Assets	Liabilities
Forward contracts	1.089.555	-	-	(493.869)
	<u>1.089.555</u>	<u>-</u>	<u>-</u>	<u>(493.869)</u>
Short-term	1.089.555	-	-	(493.869)
	<u>1.089.555</u>	<u>-</u>	<u>-</u>	<u>(493.869)</u>

The forward foreign exchange contracts regarding the foreign currency risks of 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
Forward contracts		
Sales Contract - US Dollar	24.036.000	2.000.000
Purchase Contract - Euro	20.000.000	1.756.389

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**27. FINANCIAL INSTRUMENTS****Financial Investments***Financial assets at fair value through profit or loss*

	31 December 2017	31 December 2016
Eurobond investments	151.146.340	239.526.010
Common stocks listed in the stock exchange	-	1.389.257
	<u>151.146.340</u>	<u>240.915.267</u>

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 54,1% US Dollar, 45,1% Euro and 0,1% 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 2017	31 December 2016
Current portion of long-term borrowings	78.678.177	120.612.488
Long-term borrowings	264.613.574	214.676.800
	<u>343.291.751</u>	<u>335.289.288</u>

Currency type	Weighted average effective interest rate	31 December 2017	
		Current	Non-current
Euro	2,35% - 4,30%	40.945.174	264.613.574
US Dollar	3% - 4,50%	37.733.003	-
		<u>78.678.177</u>	<u>264.613.574</u>

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
		<u>120.612.488</u>	<u>214.676.800</u>

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

#### 27. FINANCIAL INSTRUMENTS (cont'd)

##### Financial Liabilities (cont'd)

The borrowings are repayable as follows:

	31 December 2017	31 December 2016
To be paid within 1 year	78.678.177	120.612.488
To be paid between 1-2 years	108.860.243	67.753.398
To be paid between 2-3 years	98.066.477	80.158.803
To be paid between 3-4 years	12.541.263	19.370.918
To be paid between 4-5 years	9.029.627	10.303.421
To be paid in more than 5 years	36.115.964	37.090.260
	<u>343.291.751</u>	<u>335.289.288</u>

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

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

The cash and non-cash changes related to the Group's financing activities are given below. The liabilities arising from financing activities are classified as "cash flows from financing activities" in the statement of cash flows of the Group.

	1 January 2017	Financial cash flows	Non-cash changes		31 December 2017
			Movements of exchange differences	Accrual of interest	
Bank loans	335.289.288	(65.790.728)	61.237.353	12.555.838	343.291.751
	<u>335.289.288</u>	<u>(65.790.728)</u>	<u>61.237.353</u>	<u>12.555.838</u>	<u>343.291.751</u>

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

#### 28. 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 27, 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 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Financial liabilities	343.291.751	335.289.288
Less: Cash and cash equivalents and Short-term Investments	<u>(302.918.297)</u>	<u>(311.986.084)</u>
Net Debt	40.373.454	23.303.204
Total Equity	146.728.669	131.340.174
Total Share Capital	<u>187.102.123</u>	<u>154.643.378</u>
Net Debt / Total Equity Ratio	<u>22%</u>	<u>15%</u>

##### b) Financial Risk Factors

The Group's activities expose it to a variety of financial risks including market 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.



**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

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

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

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

**b) Financial Risk Factors (cont'd)**

**b.1) Credit risk management**

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.

31 December 2017	Receivables				Deposit at Banks	Financial Investments
	Trade Receivables		Other Receivables			
	Related Party	Third Party	Related Party	Third Party		
Maximum credit risk as of reporting date (A+B+C+D) (*)	6.803.511	68.857.985	33.467.284	2.078.225	151.724.657	151.146.340
- Portion of maximum risk secured by guarantees etc. (**)	-	8.811.150	-	-	-	-
A. Net carrying value of neither past due nor impaired financial assets	5.916.957	52.295.586	33.467.284	2.078.225	151.724.657	151.146.340
B. Net carrying value of past due but nor impaired financial assets	886.554	16.562.399	-	-	-	-
C. Net carrying value of impaired financial assets						
- Past due (gross carrying value)	-	13.478.602	-	-	-	-
- Impairment (-)	-	(13.478.602)	-	-	-	-
- 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.

# KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

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

#### b) Financial Risk Factors (cont'd)

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

31 December 2016	Receivables				Deposit at Banks	Financial Investments
	Trade Receivables		Other Receivables			
	Related Party	Third Party	Related Party	Third Party		
Maximum credit risk as of reporting date (A+B+C+D) (*)	6.265.962	75.797.878	18.211.999	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	1.567.234	50.628.422	18.211.999	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.

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.

Trade Receivables	31 December 2017	31 December 2016
1 to 30 days overdue	11.247.386	4.199.372
1 to 3 months overdue	2.672.163	9.088.434
3 to 12 months overdue	1.439.717	14.316.409
Over 1 - 5 years overdue	2.089.687	2.263.969
<b>Total overdue receivables</b>	<b>17.448.953</b>	<b>29.868.184</b>

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

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

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

**28. 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.

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 risk of funding current and future borrowing requirements is managed by sustaining the accesibility of adequate number of high-quality loan supplier.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

**31 December 2017**

<u>Maturities as per the terms</u>	<u>Book Value</u>	<u>Total cas outflows as per the terms of agreement</u>				
		<u>(I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>Between 3-12 months (II)</u>	<u>Between 1-5 years (III)</u>	<u>More than 5 years (IV)</u>
<b>Non-derivative financial liabilities</b>						
Bank borrowings	(343.291.751)	(372.090.783)	(5.785.570)	(82.481.757)	(245.013.595)	(38.809.861)
Trade payables	(135.520.915)	(136.462.001)	(123.349.895)	(13.066.826)	(45.280)	-
Other payables	(366.942)	(366.942)	(338.097)	-	(28.845)	-
<b>Total liabilities</b>	<b>(479.179.608)</b>	<b>(508.919.726)</b>	<b>(129.473.562)</b>	<b>(95.548.583)</b>	<b>(245.087.720)</b>	<b>(38.809.861)</b>
Derivative cash inflows	1.089.555	90.310.000	-	90.310.000	-	-
Derivative cash outflows	-	(90.661.388)	-	(90.661.388)	-	-

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

#### 28. 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 2016

<u>Maturities as per the terms</u>	<u>Book Value</u>	<u>Total cas</u>	<u>Less than 3</u>	<u>Between 3-12</u>	<u>Between 1-5</u>	<u>More than 5</u>
		<u>outflows as per</u>				
		<u>the terms of</u>				
		<u>agreement</u>				
		<u>(I+II+III+IV)</u>				
<b>Non-derivative financial liabilities</b>						
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)	-
<b>Total liabilities</b>	<b>(395.488.278)</b>	<b>(421.052.921)</b>	<b>(60.913.687)</b>	<b>(128.300.760)</b>	<b>(191.369.921)</b>	<b>(40.468.553)</b>
Derivative cash inflows	-	6.516.027	-	6.516.027	-	-
Derivative cash outflows	(493.869)	(7.038.400)	-	(7.038.400)	-	-

##### 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 when 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:

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

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

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

**28. 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 2017					
TL Equivalent (Functional Currency)	US Dollar	Euro	GBP	NGN	
1. Trade Receivables	42.067.543	2.966.296	6.814.894	-	8.610.993
2a. Monetary Financial Assets	215.918.819	25.021.550	26.647.251	63.660	72.162.191
2b. Non-monetary Financial Assets	32.658.717	5.067.000	3.000.000	-	-
3. Other	9.208.766	-	-	-	745.851.703
<b>4. CURRENT ASSETS</b>	<b>299.853.845</b>	<b>33.054.846</b>	<b>36.462.145</b>	<b>63.660</b>	<b>826.624.887</b>
5. Trade Receivables	-	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-	-
6b. Non-monetary Financial Assets	-	-	-	-	-
7. Other	-	-	-	-	-
<b>8. NON-CURRENT ASSETS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>9. TOTAL ASSETS</b>	<b>299.853.845</b>	<b>33.054.846</b>	<b>36.462.145</b>	<b>63.660</b>	<b>826.624.887</b>
10. Trade Payables	81.304.733	7.419.252	11.329.381	14.795	169.039.692
11. Financial Liabilities	37.733.001	10.003.712	-	-	-
12a. Monetary Other Liabilities	-	-	-	-	-
12b. Non-monetary other liabilities	-	-	-	-	-
<b>13. SHORT-TERM LIABILITIES</b>	<b>119.037.734</b>	<b>17.422.964</b>	<b>11.329.381</b>	<b>14.795</b>	<b>169.039.692</b>
14. Trade Payables	-	-	-	-	-
15. Financial Liabilities	305.558.749	-	67.668.863	-	-
16a. Monetary Other Liabilities	-	-	-	-	-
16b. Non-monetary Other Liabilities	-	-	-	-	-
<b>17. LONG-TERM LIABILITIES</b>	<b>305.558.749</b>	<b>-</b>	<b>67.668.863</b>	<b>-</b>	<b>-</b>
<b>18. TOTAL LIABILITIES</b>	<b>424.596.483</b>	<b>17.422.964</b>	<b>78.998.244</b>	<b>14.795</b>	<b>169.039.692</b>
19. Off-balance sheet derivative instruments net asset / liability position (19a-19b)	(351.388)	(24.036.000)	20.000.000	-	-
19a. Off-balance sheet foreign currency derivative assets	90.310.000	-	20.000.000	-	-
19b. Off-balance sheet foreign currency derivative assets	90.661.388	24.036.000	-	-	-
<b>20. Net foreign currency assets / liabilities position</b>	<b>(125.094.026)</b>	<b>(8.404.118)</b>	<b>(22.536.099)</b>	<b>48.865</b>	<b>657.585.195</b>
21. Monetary items net foreign currency assets / liabilities (1+2a+5+6a-10-11-12a-14-15-16a)	(166.610.121)	10.564.882	(45.536.099)	48.865	(88.266.508)

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

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

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

**28. 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	-	-	-	-
<b>4. CURRENT ASSETS</b>	<b>383.426.752</b>	<b>67.745.785</b>	<b>35.822.484</b>	<b>2.805.796</b>
5. Trade Receivables	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-
6b. Non-monetary Financial Assets	-	-	-	-
7. Other	-	-	-	-
<b>8. NON-CURRENT ASSETS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>9. TOTAL ASSETS</b>	<b>383.426.752</b>	<b>67.745.785</b>	<b>35.822.484</b>	<b>2.805.796</b>
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	-	-	-	-
<b>13. SHORT-TERM LIABILITIES</b>	<b>152.022.588</b>	<b>8.479.891</b>	<b>32.927.748</b>	<b>4.979</b>
14. Trade Payables	-	-	-	-
15. Financial Liabilities	214.676.799	9.999.921	48.380.031	-
16a. Monetary Other Liabilities	-	-	-	-
16b. Non-monetary Other Liabilities	-	-	-	-
<b>17. LONG-TERM LIABILITIES</b>	<b>214.676.799</b>	<b>9.999.921</b>	<b>48.380.031</b>	<b>-</b>
<b>18. TOTAL LIABILITIES</b>	<b>366.699.387</b>	<b>18.479.812</b>	<b>81.307.779</b>	<b>4.979</b>
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 derivative assets	6.516.028	-	1.756.389	-
19b. Off-balance sheet foreign currency derivative assets	7.038.400	2.000.000	-	-
<b>20. Net foreign currency assets / liabilities position</b>	<b>16.204.993</b>	<b>47.265.973</b>	<b>(43.728.906)</b>	<b>2.800.817</b>
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

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

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

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

**28. 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 2017**

	Profit / Loss	
	10% strengthening of foreign currency	10% weakening of foreign currency
1- US Dollar net asset / liability	(3.169.949)	3.169.949
2- Portion from US Dollar hedged (-)	-	-
<b>3- Net Effect of US Dollar (1+2)</b>	<b>(3.169.949)</b>	<b>3.169.949</b>
4- EURO net asset / liability	(10.176.175)	10.176.175
5- Portion from EURO hedged (-)	-	-
<b>6- Net Effect of Euro (4+5)</b>	<b>(10.176.175)</b>	<b>10.176.175</b>
7- GBP net asset / liability	24.825	(24.825)
8- Portion from GBP hedged (-)	-	-
<b>9- Net Effect of GBP (7+8)</b>	<b>24.825</b>	<b>(24.825)</b>
10- NGN net asset / liability	811.897	(811.897)
11- Portion from NGN hedged (-)	-	-
<b>12- Net Effect of NGN (7+8)</b>	<b>811.897</b>	<b>(811.897)</b>
<b>TOTAL (3+6+9+12)</b>	<b>(12.509.402)</b>	<b>12.509.402</b>

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

**28. 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)**

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



# KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

### 28. 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

		<b>Interest Position Movement</b>	
		<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Instruments with Fixed Interest</b>			
Financial Assets	Time deposits with maturities less than three months	140.356.982	28.999.868
	Assets which fair value is reflected to profit and loss	151.146.340	240.915.267
Financial Liabilities		169.249.247	153.409.489
<b>Instruments with Variable Interest</b>			
Financial Liabilities		174.042.504	181.879.799

If interest rates in all currencies had been 100 basis points higher and all other variables were held constant, the profit before tax for the year ended 31 December 2017 would decrease by TL 5.642.306 (31 December 2016: TL 6.450.888). Due to the effect of relevant change in exchange rate on equity without affecting profit/loss, equity would be TL 5.642.306 (31 December 2016: TL 6.450.888) lower.

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

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

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

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

	Loans and receivables (including cash and cash equivalents)	Financial assets at FVTPL	Financial liabilities at amortized cost	Carrying value	Note
31 December 2017					
<b>Financial assets</b>					
Cash and cash equivalents	151.771.957	-	-	151.771.957	31
Financial investments	-	151.146.340	-	151.146.340	27
Trade receivables	68.857.985	-	-	68.857.985	5
Trade receivables from related parties	6.803.511	-	-	6.803.511	4,5
Other receivables from related parties	33.467.284	-	-	33.467.284	4,6
Other receivables	2.078.225	-	-	2.078.225	6
<b>Financial liabilities</b>					
Financial borrowings	-	-	343.291.751	343.291.751	27
Trade payables	-	-	135.362.147	135.362.147	5
Trade payables to related parties	-	-	158.768	158.768	4,5
Other payables and liabilities (*)	-	-	1.650.456	1.650.456	6,15,17

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".

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

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

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

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

	Loans and receivables (including cash and cash equivalents)	Financial assets at FVTPL	Financial liabilities at amortized cost	Carrying value	Note
31 December 2016					
<u>Financial assets</u>					
Cash and cash equivalents	71.070.817	-	-	71.070.817	31
Financial investments	-	240.915.267	-	240.915.267	27
Trade receivables	75.838.702	-	-	75.838.702	5
Trade receivables from related parties	6.265.962	-	-	6.265.962	4,5
Other receivables from related parties	18.211.999	-	-	18.211.999	4,6
Other receivables	1.432.526	-	-	1.432.526	6
<u>Financial liabilities</u>					
Financial borrowings	-	-	335.289.288	335.289.288	27
Trade payables	-	-	59.823.103	59.823.103	5
Trade payables to related parties	-	-	142.210	142.210	4,5
Other payables and liabilities (*)	-	-	925.439	925.439	6,15,17

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".

## KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

#### 29. 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 2017	31 December 2016	
Financial Investments	151.146.340	239.526.010	1
Common Shares (held for trading)	-	1.389.257	1
Foreign currency forward contracts	1.089.555	(493.869)	2

# KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

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

### 29. 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 manage 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 periodically. As such, the Group is subject to price risk of changes in market prices or the amortisation of an Eurobond issuer entity.

In addition, the Group is exposed to principal or interest risk in such circumstances that an Eurobond issuer declares bankruptcy or postpones amortization or the coupon payments.

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 2017	14.990.430	(14.990.430)
31 December 2016	23.569.298	(23.569.298)

### 30. EVENTS AFTER THE REPORTING PERIOD

On 7 February 2018, the Company acquired 100% of the shares of the companies titled LLC Metalfrío Solutions and LLC Estate registered in Kaliningrad, Russia, amounting to Euro 5.705.719 upon the board decision no. 29 dated 20 October 2017.

**KLİMASAN KLİMA SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**

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

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

**31. DISCLOSURES RELATED TO STATEMENT OF CASH FLOWS**

At 31 December 2017 and 31 December 2016 cash and cash equivalents comprised the following:

	31 December 2017	31 December 2016
Cash on hand	47.300	32.314
Cash at banks (*)	151.611.933	70.819.041
<i>Time deposit with maturities less than three months</i>	<i>140.356.982</i>	<i>28.999.868</i>
<i>Demand deposits</i>	<i>11.254.951</i>	<i>41.819.173</i>
Other cash and cash equivalents	112.724	219.462
	<u>151.771.957</u>	<u>71.070.817</u>
Interest accrual related to time deposits	(432.357)	-
Cash and cash equivalents	<u>151.339.600</u>	<u>71.070.817</u>

(\*) Cash and cash equivalents amounting to TL 9.208.766 are classified as other current assets since their use in the continuing operations fulfillment of liabilities is restricted. The Group management foresees that this restriction will be lifted within 3 months.

As at 31 December 2017 and 31 December 2016, details of time deposits are as follows:

Currency	Interest Rate (%)	Maturity	31 December 2017
TL	14,30 - 15,50	January 2018	85.723.681
Euro	1,40 - 1,60	January 2018	44.257.719
US Dollar	3,10 - 3,40	January 2018	10.375.582
			<u>140.356.982</u>

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
			<u>28.999.868</u>