KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2018 AND
INDEPENDENT AUDITOR'S REPORT

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

INDEX **PAGE**

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

ASSETS	**Notes**	**Current period 31 December 2018**	**Prior period 31 December 2017**
Current Assets		**762,295,507**	**554,131,425**
Cash and Cash Equivalents	32	113,874,141	151,771,957
Financial Investments	28	324,713,372	151,146,340
Trade Receivables		163,004,068	75,661,496
Trade Receivables from Related Parties	*4.5*	*5,899,859*	*6,803,511*
Trade Receivables from Third Parties	*5*	*157,104,209*	*68,857,985*
Other Receivables		2,598,756	35,532,945
Other Receivables from Related Parties	*4.6*	*324,251*	*33,467,284*
Other Receivables from Third Parties	*6*	*2,274,505*	*2,065,661*
Inventories	7	124,272,866	103,455,333
Derivative Financial Instruments	27	6,968,457	1,089,555
Prepaid Expenses	8	24,033,169	14,964,740
Other Current Assets	17	2,830,678	20,509,059
Non-Current Assets		**118,074,611**	**90,945,545**
Other Receivables		12,564	12,564
Other Receivables from Third Parties	*6*	*12,564*	*12,564*
Property, Plant and Equipment	9	94,897,310	66,725,175
Intangible Assets		22,854,065	18,270,050
Goodwill	*3,11*	*383,655*	*383,655*
Other Intangible Assets	*10*	*22,470,410*	*17,886,395*
Prepaid Expenses	8	179,989	481,838
Deferred Tax Assets	25	130,683	5,455,918
TOTAL ASSETS		**880,370,118**	**645,076,970**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

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

LIABILITIES	Notes	Current period 31 December 2018	Prior period 31 December 2017
Current Liabilities		**380,112,534**	**227,887,332**
Short-Term Borrowings	28	16,104,395	-
Short-Term Portion of Long-Term Borrowings	28	168,307,972	78,678,177
Trade Payables		164,848,117	135,520,915
Trade Payables to Related Parties	*4.5*	*1,323,792*	*158,768*
Trade Payables to Third Parties	*5*	*163,524,325*	*135,362,147*
Payables Related to Employee Benefits	15	4,844,761	3,367,421
Other Payables		1,021,258	338,097
Other Payables to Third Parties	*6*	*1,021,258*	*338,097*
Deferred Income	8	5,241,237	2,181,554
Derivative Financial Instruments	27	5,847,561	-
Current Tax Liability	25	1,125,737	-
Short-Term Provisions		10,439,977	6,517,654
Short-Term Provisions for Employee Benefits	*15*	*3,335,564*	*2,249,348*
Other Short-Term Provisions	*13*	*7,104,413*	*4,268,306*
Other Current Liabilities	17	2,331,519	1,283,514
Non-Current Liabilities		**290,685,403**	**270,460,969**
Long-Term Borrowings	28	284,078,598	264,613,574
Other Payables		18,845	28,845
Other Payables to Third Parties	*6*	*18,845*	*28,845*
Long-Term Provisions		6,587,960	5,818,550
Long-Term Provisions for Employee Benefits	*15*	*6,587,960*	*5,818,550*
EQUITY		**209,572,181**	**146,728,669**
Attributable to the Parent		**209,523,491**	**146,708,267**
Share Capital	18	39,600,000	33,000,000
Adjustments to Share Capital	18	980,882	980,882
Restricted Reserves Appropriated From Profit	18	5,666,104	5,666,104
Other Comprehensive Income or Expenses that may be Reclassified Subsequently to Profit or Loss	24	5,774,555	842,853
Currency Translation Differences		*5,774,555*	*842,853*
Other Comprehensive Income or Expenses that will not be Reclassified Subsequently to Profit or Loss		(2,247,776)	(2,920,778)
Loss on Remeasurement of Defined Benefit Plans	*24*	*(2,247,776)*	*(2,920,778)*
Retained Earnings		99,495,139	94,442,449
Net Profit for the Period		60,254,587	14,696,757
Non-Controlling Interests		**48,690**	**20,402**
TOTAL LIABILITIES AND EQUITY		**880,370,118**	**645,076,970**

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 2018

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

	Notes	Current Period 1 January - 31 December 2018	Prior period 1 January- 31 December 2017
Revenue	19	717,382,498	426,705,590
Cost of Sales (-)	19	(567,752,032)	(342,784,156)
GROSS PROFIT		**149,630,466**	**83,921,434**
General Administrative Expenses (-)	20	(21,335,829)	(14,195,302)
Marketing Expenses (-)	20	(54,969,785)	(33,909,602)
Research and Development Expenses (-)	20	(5,483,071)	(5,017,347)
Other Income from Operating Activities	21	15,455,296	9,749,621
Other Expenses from Operating Activities (-)	21	(3,652,507)	(685,992)
OPERATING PROFIT		**79,644,570**	**39,862,812**
Income from Investing Activities	22	48,236,091	79,571,903
Expenses from Investing Activities (-)	22	(6,888,997)	(36,209,872)
OPERATING PROFIT BEFORE FINANCE EXPENSE		**120,991,664**	**83,224,843**
Finance Income and Expenses, (net)	23	(53,689,356)	(69,814,767)
PROFIT BEFORE TAX		**67,302,308**	**13,410,076**
Tax Expense		**(7,019,433)**	**1,283,956**
- Current Tax Expense	*25*	(1,862,449)	-
- Deferred Tax Income / (Expense)	*25*	(5,156,984)	1,283,956
PROFIT FOR THE YEAR		**60,282,875**	**14,694,032**
Profit for the Year Attributable to:			
Non - controlling interests		28,288	(2,725)
Owners of the Company		60,254,587	14,696,757
		60,282,875	**14,694,032**
Earnings Per Share	26	**1.5223**	**0.3711**
OTHER COMPREHENSIVE INCOME	24	**5,604,704**	**671,336**
Items that will not be Reclassified Subsequently to Profit or Loss		**673,002**	**56,788**
Gains on Remeasurement of Defined Benefit Plans		841,253	70,985
Deferred Tax Profit Related to Other Comprehensive Income		(168,251)	(14,197)
Items that will be Reclassified Subsequently to Profit or Loss		**4,931,702**	**614,548**
Foreign Currency Translation Differences		4,931,702	614,548
TOTAL COMPREHENSIVE INCOME		**65,887,579**	**15,365,368**

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 2018

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

			Accumulated Other Comprehensive Income or Expenses that will not be reclassified Subsequently to Profit or Loss	Accumulated Other Comprehensive Income or Expenses that will be Reclassified Subsequently to Profit or Loss		Retained Earnings			
	Share Capital	**Adjustments to Share Capital**	**Accumulated Gain/Loss On Remeasurement Of Defined Benefit Plans**	**Foreign Currency Translation Reserves**	**Reserves Appropriated from Profit**	**Prior Year's Profit/ Losses**	**Net Profit for the Year**	**Non-Controlling Interests**	**Total Equity**
Balances as of 1 January 2017	**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 Interest	-	-	-	-	-	-	-	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**
Balances as of 31 December 2017	**33,000,000**	**980,882**	**(2,920,778)**	**842,853**	**5,666,104**	**94,442,449**	**14,696,757**	**20,402**	**146,728,669**
Balances as of 1 January 2018	**33,000,000**	**980,882**	**(2,920,778)**	**842,853**	**5,666,104**	**94,442,449**	**14,696,757**	**20,402**	**146,728,669**
Transfers	-	-	-	-	-	14,696,757	(14,696,757)	-	**-**
Effect of Business Combinations Involving Entities Under Common Control (Note 3)	-	-	-	-	-	(2,044,067)	-	-	**(2,044,067)**
Capital Increase	6,600,000	-	-	-	-	(6,600,000)	-	-	**-**
Dividend	-	-	-	-	-	(1,000,000)	-	-	**(1,000,000)**
Total Comprehensive Income	-	-	673,002	4,931,702	-	-	60,254,587	28,288	**65,887,579**
Balances as of 31 December 2018	**39,600,000**	**980,882**	**(2,247,776)**	**5,774,555**	**5,666,104**	**99,495,139**	**60,254,587**	**48,690**	**209,572,181**

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	Current Period 1 January- 31 December 2018	Prior Period 1 January- 31 December 2017
A. Cash Flows From Operating Activities			
Profit for the Period		60,282,875	14,694,032
Adjustments to Reconcile Profit for the Period			
Adjustments Related to Depreciation and Amortization Expenses	9,10	18,018,234	11,089,272
Adjustments Related to Impairment (Reversal)			
Adjustments Related to Impairment (Reversal) for Inventories	*7*	*2,014,500*	*(555,422)*
Adjustments Related to Impairment for Receivables	*5*	*1,200,105*	*47,322*
Adjustments Related to Provisions			
Adjustments Related to Provision for Employee Benefits	*15*	*5,372,228*	*2,940,117*
Adjustments Related to Legal Claims	*13*	*848,888*	276,158
Adjustments Related to Warranty Provision	*13*	*1,515,128*	869,234
Adjustments Related to Other Provisions		*(328,448)*	(332,908)
Adjustments Related to Interest Income and Expenses			
Adjustments Related to Interest Income	*22*	*(19,369,582)*	*(19,545,670)*
Adjustments Related to Interest Expenses	*23*	*18,141,524*	*12,555,838*
Deferred Financial Expense from Terms of Purchases	*5,21*	*(452,546)*	*(666,449)*
Unearned Financial Income from Terms of Sales	*5,21*	*1,100,072*	*381,503*
Adjustments Related to Unrealized Foreign Currency Exchange Differences		105,762,378	52,293,936
Adjustments Related to Fair Value Losses / (Gains)			
Adjustments Related to Fair Value of Financial Assets Loss	*22*	*(19,988,247)*	*(1,984,063)*
Adjustments Related to Fair Value of Derivative Instrument Gain	*23*	*(43,215,013)*	*(1,272,811)*
Adjustments Related to Tax Income	25	7,019,433	(1,283,956)
Adjustments Related to Gain on Disposal of Non-current Assets			
Adjustment Relateds to Gain on Disposal of Property, Plant and Equipment and Intangible Assets	*22*	*(211,884)*	*(179,732)*
		77,426,770	54,632,369
Changes in Working Capital			
Adjustments Related to Increase in Inventories	3.7	(9,398,238)	(59,853,379)
Adjustments Related to (Increase) / Decrease in Trade Receivables	3.5	*(84,123,275)*	*8,204,289*
Adjustments Related to Decrease / (Increase) in Other Receivables from Operations	3,6,17	*53,293,454*	*(24,461,737)*
Adjustments Related to Increase in Trade Payables	3.5	*23,450,189*	*64,796,096*
Adjustments Related to Decrease in Prepaid Expenses	3.8	(7,796,748)	(4,833,894)
Adjustments Related to Decrease in Deferred Income	3.8	2,601,264	987,069
Adjustments Related to (Decrease) / Increase in Other Payables for Operations	6,15,17	*(8,665,325)*	*1,194,861*
		(30,638,679)	(13,966,695)
Cash Generated from Operations			
Payments for Employee Termination Benefits	15	(3,260,775)	(2,445,089)
Payments for Other Provisions	13	(384,758)	(25,651)
Tax (Payments) / Returns	25	(736,712)	3,030,849
		102,688,721	55,919,815

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	Current Period 1 January- 31 December 2018	Prior Period 1 January- 31 December 2017
B. Cash Flows From Investing Activities			
Cash Flow			
Payments for Acquisition of Subsidiary which Control is Obtained	3	(24,235,147)	(592,733)
Proceeds on Sale of Property, Plant and Equipment and Intangible Assets			
Proceeds on Sale of Property, Plant and Equipment and Intangible Assets	*9,22*	*384,132*	*439,409*
Payments for Acquisition of Property, Plant and Equipment and Intangible Assets			
Payments for Acquisition of Property, Plant and Equipment	*9*	*(17,415,611)*	*(22,721,422)*
Payments for Acquisition of Intangible Assets	*10*	*(10,401,849)*	*(7,099,213)*
Cash Outflow for Aquisition of Shares in Other Entities or Shares in Funds or Debt Instruments	22,28	(153,578,785)	91,752,990
Interest Received		19,790,221	19,113,313
		(185,457,039)	80,892,344
C. Cash Flows From Financing Activities			
Proceeds From Borrowings			
Cash Inflow From Borrowings	*28*	*99,020,944*	*83,576,639*
Cash Outflow of Borrowings			
Cash Outflows on Repayment of Borrowings	28	*(105,881,297)*	*(138,611,954)*
Dividend Payment	18	(1,000,000)	-
Cash Inflow((Outflows), Net from Derivative Instruments		43,183,672	(310,613)
Interest Received		(13,025,756)	(10,755,413)
		22,297,563	(66,101,341)
Net (Decrease)/Increase in Cash and Cash Equivalents Before the Effect of Foreign Exchange Rate Changes (A+B+C)		**(60,470,755)**	**70,710,818**
D. Effects of Foreign Exchange Rate Changes on Cash and Cash Equivalents		22,993,578	9,557,965
NET INCREASE / (DECREASE) ON CASH AND CASH EQUIVALENTS (A+B+C+D)		(37,477,177)	80,268,783
E. Cash and Cash Equivalents at the Begining of the Period	**32**	**151,339,600**	**71,070,817**
Cash and Cash Equivalents at the End of the Period (A+B+C+D+E)	**32**	**113,862,423**	**151,339,600**

1. ORGANIZATION AND OPERATIONS OF THE GROUP

Klimasan Klima Sanayi ve Ticaret A.Ş. (the "Company") and its subsidiaries (all together referred to as the "Group") 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 Company is Metalfrio Solutions Soğutma Sanayi ve Ticaret A.Ş.. The ultimate shareholder of the Company 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 of 31 December 2018, 39% portion of its shares is listed in ISE.

As of 31 December 2018, the average personnel number of the Group for the year is 1,653 (Average personnel number in 2017: 1,345).

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.

As per the board decision dated 20 October 2017, The Company acquired shares of LLC Metalfrio Solutions ("OOO Metalfrio Solutions") and LLC Estate ("OOO Estate") amounting to EUR 1,600,666 (TL 7,498,000) and EUR 4,105,053 (TL 19,229,300), respectively, of which registered offices are located in Kaliningrad, Russian Federation, from Metalfrio Solutions A/S of which registered office is located in Viborg, Denmark. Acquisition process of these companies was completed on 7 February 2018.

Dividend payable

As of the date of this report, Group directors have not decided on the distribution of profit. In annual general meeting, dividend is subject to approval by shareholders.

Approval of financial statements

Board of Directors has approved the consolidated financial statements and delegated authority for publishing it on 11 March 2019. General Assembly has the authority to modify the consolidated financial statements.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Basis of Preparation

Statement of Compliance

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

The financial statements and disclosures have been prepared in accordance with the resolution of CMB 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 revalued. 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 period 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 currenct period, Group has made reclassifications to the pervious period financial statements. Qualification, reason and amount of the reclassifications are explained below:

- In 2017, Group presented "Interest income from loans to related parties" amounted TL 1,352,403 under "Finance income / loss (net)". In the current year, this is presented under "Income from investment activities".
- In 2017, Group presented "Fixed assets sales income" amounted TL 179,732 under "Operating activities income". In the current year, this is presented under "Income from investment activities".

These reclassifications do not have any impact over the consolidated statement of profit or loss.

(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 2018 and 31 December 2017 are as follows:

			Group's share in capital and voting rights (%)	
Subsidiaries	Place of Incorporation and Operation	Functional Currency	31 December 2018	31 December 2017
Metalfrio Solutions Poland SP. Z.o.o.	Poland	Euro	%100	%100
Metalfrio West Africa Ltd.	Nigeria	Nigerian Naira	%97	%97
Sabcool Ltd.	Nigeria	Nigerian Naira	%87.3	%87.3
OOO Metalfrio Solutions	Russia	Ruble	%100	-
OOO Estate	Russia	Ruble	%100	-

The consolidated financial statements include the financial statements that 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 period 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.

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

2.1 Basis of Preparation (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 TFRS). 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 TFRS 9 *Financial Instruments*, 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 period that the comparative financial statements are presented and financial statements of previous financial periods 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 completed the acquisition for LLC Metalfrıo Solutions and LLC Estate of which registered offices are located in Kaliningrad, Russia on 7 February 2018. The Company acquired shares from a group company, Metalfrio Solutions A/S of which registered office is located in Viborg, Denmark for a consideration of EUR 5,705,719 (TL 26,727,300). 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, financial statements in the the prior period is not restated and the difference between the Company's share in the subsidiary's equity and the difference arising from offsetting of participation rate and equity shares of the company acquired amounting to TL 2,044,067 is recognized directly under equity.

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 Group other than new and revised standards effective from 1 January 2018 disclosed in Note 2.4 in the current period.

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

2.3 Changes in Accounting Estimates and Errors

If changes in accounting estimates and errors are for only one period, changes are applied in the current period but if the estimated changes affect the following periods, changes are applied both on the current and following years prospectively. In the current period, there are not any material errors and changes in accounting estimate methods of the Group.

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

2.4 New and Revised Turkish Accounting Standards

New and amended Turkish Financial Reporting Standards that are effective for the current year

TFRS 9 Financial Instruments

(a) Recognition and measurement of financial assets

In the current year, the Group has applied TFRS 9 Financial Instruments (as revised in 2017) and the related consequential amendments to other TFRS Standards that are effective for an annual period that begins on or after 1 January 2018. As a result of the transition provisions of TFRS 9, the comparatives have not been restated accordingly since the cumulative effect after the initial application of TFRS 9 is not at a significant amount.

TFRS 9 introduced new requirements for:

1) The classification and measurement of financial assets and financial liabilities,
2) Impairment of financial assets, and
3) General hedge accounting.

Details of these new requirements as well as their impact on the Group's financial statements are described below.

The Group has applied TFRS 9 in accordance with the transition provisions set out in TFRS 9.

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of TFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of TFRS 9 to instruments that continue to be recognized as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognized as at 1 January 2018.

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

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

New and amended Turkish Financial Reporting Standards that are effective for the current year (cont'd)

TFRS 9 Financial Instruments (cont'd)

(a) Recognition and measurement of financial assets (cont'd)

All recognized financial assets that are within the scope of TFRS 9 are required to be measured subsequently at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

- debt instruments 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 amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income ("FVTOCI");
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss ("FVTPL").

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

When a debt investment measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortized cost or at FVTOCI are subject to impairment. See (b) below.

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

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

New and amended Turkish Financial Reporting Standards that are effective for the current year (cont'd)

TFRS 9 Financial Instruments (cont'd)

(a) Recognition and measurement of financial assets (cont'd)

The directors of the Group reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the application of TFRS 9 has not had any impact on the Group's financial assets.

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 the Group 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 of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Specifically, TFRS 9 requires the Group to recognize a loss allowance for expected credit losses.

In particular, TFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses ("ECL") if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset.

However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. TFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

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

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

New and amended Turkish Financial Reporting Standards that are effective for the current year (cont'd)

TFRS 9 Financial Instruments (cont'd)

(b) Impairment of financial assets

Impairment

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 the Group 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 of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Specifically, TFRS 9 requires the Group to recognize a loss allowance for expected credit losses on:

Financial assets measured at amortized cost will be subject to the impairment provisions of TFRS 9.

The Group applies the simplified approach to recognize lifetime expected credit losses for its trade receivables, receivables from related parties, and other receivables as required or permitted by TFRS 9.

To measure the expected credit losses, trade receivables, receivables from related parties and other receivables have been grouped based on shared credit risk characteristics and the days past due. The application of expected credit loss on the Group's financial statements is explained on note 5.

(c) Classification and measurement of financial liabilities

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

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

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

New and amended Turkish Financial Reporting Standards that are effective for the current year (cont'd)

TFRS 9 Financial Instruments (cont'd)

(c) Classification and measurement of financial liabilities (cont'd)

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk 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, but are instead transferred to retained earnings when the financial liability is derecognized. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The application of IFRS 9 has had significant impact on the classification and measurement of the Group's financial liabilities.

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.

The Interpretations Committee came to the following conclusion:

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

TFRS 15 Revenue from Contracts with Customers

Impact on the Financial Statements

In the current year, the Group has applied TFRS 15 Revenue from Contracts with Customers which is effective for an annual period that begins on or after 1 January 2018. TFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in TFRS 15 to deal with specific scenarios. The standard does not have a significant impact on the Group's financial statements except for details of the new requirements as well as their impact on the Group's financial statements.

(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)

New and revised TFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, The Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

TFRS 16	*Leases*[1]
TFRS interpretation 23	*Uncertainty over Income Tax Treatments* [1]
TAS 19 (amendments)	*Changes related to Plan Amendment, Curtailment or Settlement*[1]
TFRS 10 and TAS 28 (amendments)	*Sale of Contribution of Assets between an Investor and its Associate or Joint Venture*
Standards 2015–2017 Cycle	*TFRS 12 Income Taxes and TFRS 23 Borrowing Costs*[1]

[1] Effective from periods on or after 1 January 2019.

The Group management does not expect that the adoption of the Standards listed above will have a material impact on the financial statements in future periods, except as noted below:

TFRS 16 *Leases*

General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group will be 1 January 2019.

In contrast to lessee accounting, TFRS 16 substantially carries forward the lessor accounting requirements in TAS 17.

Impact of the new definition of a lease

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

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

2.4 New and amended Turkish Financial Reporting Standards that are effective for the current year (cont'd)

New and revised TFRS Standards in issue but not yet effective (cont'd)

TFRS 16 *Leases* (cont'd)

General impact of application of IFRS 16 Leases (cont'd)

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019.

Impact on Lessee Accounting
Operating leases

TFRS 16 will change how the Group accounts for leases previously classified as operating leases under TAS 17, which were off-balance sheet.

On initial application of TFRS 16, for all leases (except as noted below), the Group will:

a) Recognise right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

Under TFRS 16, right-of-use assets will be tested for impairment in accordance with TAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by TFRS 16.

The directors of the Group have assessed that the application of TFRS 16 will not have an impact on the Group's financial statements.

Financial leases

The main differences between TFRS 16 and TAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. TFRS 16 requires that the Group recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by TAS 17. On initial application the Group will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

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

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

New and revised TFRS Standards in issue but not yet effective (cont'd)

TFRS 16 *Leases*(cont'd)

Impact on Lessee Accounting (cont'd)

The directors of the Group have assessed that the impact of this change will not have an impact on the amounts recognized in the Group's financial statements as of 31 December 2018.

IFRS Interpretation 23 *Uncertainty over Income Tax Treatments*

This interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under TAS 12.

TFRS 10 and TAS 28 (amendments) Sale of Contribution of Assets between an Investor and its Associate or Joint Venture

With this change, gain or loss from the sale of assets or from the same capital contribution between an investor and shareholder or joint venture has to be recognized by the investor.

Amendments to TAS 19 Employee Benefits

The Amendments to TAS 19 *Employee Benefits* address the impact of the changes in defined benefit plans (one of the two benefits provided after employment relationship is ended: defined benefit plans and defined contribution plans) to the recognition of the defined benefit plans, and TAS 19 has been amended.

Annual Improvements to IFRS Standards 2015–2017 Cycle

Annual Improvements to IFRS Standards 2015–2017 Cycle include amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements in when a party that participates in, but does not have joint control of, IAS 12 Income Taxes; income tax consequences of dividends in profit or loss, and IAS 23 Borrowing Costs in capitalized borrowing costs.

The directors of the Group assess the possible impacts of the application of the amendments on the Group's financial statements.

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.

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 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 a reporting entity and a related party, regardless of whether a price is charged.

Revenue

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

The Group recognizes the revenue in the financial statements based on five-step model provided by TFRS 15 "Revenue from Contracts with Customers" which is effective from 1 January 2018.

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

2.5 Summary of Significant Accounting Policies

Revenue (cont'd)

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price in the contracts
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue

The Group, recognises revenue in its financial statement for sources below:

- Industrial freezer and cooler
- Guarantees for products sold and after-sale service
- Sales of other materials, spare parts and goods

Group evaluates each contracted obligation separately and respective obligations, which are committed to deliver the goods or perform services, are determined as separate performance obligations. Group determines at contract inception whether the performance obligation is satisfied over time or at a point in time. When the Group transfers control of a good or service over time, and therefore satisfies a performance obligation over time, then the revenue is recognised over time by measuring the progress towards complete satisfaction of that performance obligation.

When a performance obligation is satisfied by transferring committed goods or services to a customer, the Group recognises the revenue as the amount of the transaction price that is allocated to that performance obligation. The goods or services are transferred when the control of the goods or services is delivered to the customers.

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.

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

2.5 Summary of Significant Accounting Policies (cont'd)

Revenue Recognition Policy Applied Until 31 December 2017

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:

- 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.

Interest income:

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.

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.

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.

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

2.5 Summary of Significant Accounting Policies (cont'd)

Intangible Assets (cont'd)

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognized in the income statement 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 in the profit or loss in the period in which it is incurred.

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

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

2.5 Summary of Significant Accounting Policies (cont'd)

Intangible Assets (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.

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

<u>Financial Assets</u>

All regular way purchases or sales of financial assets are recognised and derecognised on the transaction date.

The Group classifies its financial assets as (a) Business model used for managing financial assets, (b) financial assets subsequently measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss based on the characteristics of contractual cash flows. The Group reclassifies all financial assets effected from the change in the business model it uses for the management of financial assets. The reclassification of financial assets is applied prospectively from the reclassification date. In such cases, no adjustment is made to gains, losses (including any gains or losses of impairment) or interest previously recognized in the financial statements.

<u>Classification of Financial Assets</u>

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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)

Classification of Financial Assets (cont'd)

Financial assets that meet the following conditions are measured at FVTOCI:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets are measured at FVTPL if they are not measured at amortized cost or FVTOCI.

(i) Amortised cost and effective interest method

Interest income on financial assets carried at amortized cost is calculated using the effective interest method. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. This income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset:

(a) Credit-impaired financial assets when purchased or generated. For such financial assets, the Group applies the effective interest rate on the amortized cost of a financial asset based on the loan from the date of the recognition in the financial statements.

(b) Non-financial assets that are impaired at the time of acquisition or generation but subsequently become a financial asset that has been impaired. For such financial assets, the Group applies the effective interest rate to the amortized cost of the asset in the subsequent reporting periods.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI.

Interest income is recognised in profit or loss and is included in the "finance income – interest income" line item.

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)

Classification of Financial Assets (cont'd)

ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are measured at amortized cost, or at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value at the end of each period and all fair value changes are recognized in profit or loss unless the financial assets are a part of the hedging transactions.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically,

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss for the period. Other exchange differences are recognised in other comprehensive income;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss; and
- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on debt instruments, borrowing instruments, rental receivables, trade receivables, contract assets and expected credit losses related to investments for financial guarantee contracts that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group utilizes a simplified approach for trade receivables and contract assets that are not significant financing components and calculates the allowance for impairment at the same amount with the lifetime expected credit losses of the related financial assets.

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)

Impairment of financial assets (cont'd)

For all other financial instruments, the Group recognises lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. However, if on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows (all cash-deficiencies) that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate (or credit-based adjusted effective interest rate for financial assets with credit-value impairment when purchased or incurred).

Derecognition of financial assets

The Group derecognises 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.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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.

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

2.5 Summary of Significant Accounting Policies (cont'd)

Financial Instruments (cont'd)

Financial liabilities (cont'd)

A financial liability is subsequently classified by the Group at amortized cost except:

(a) Financial liabilities at FVTPL: These liabilities including derivative instruments are subsequently measured at fair value.

(b) Financial liabilities arising if the transfer of the financial asset does not meet the conditions of derecognition from the financial statements or if the ongoing relationship approach is applied: When the Group continues to present an asset based on the ongoing relationship approach, a liability in relation to this is also recognised in the financial statements. The transferred asset and the related liability are measured to reflect the rights and liabilities that the Group continues to hold. The transferred liability is measured in the same manner as the net book value of the transferred asset.

(c) A contingent consideration recognized in the financial statements by the entity acquired in a business combination where TFRS 3 is applied: After initial recognition, the related contingent consideration is measured as at FVTPL.

The Group does not reclassify any financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Derivative financial instruments

The Group uses a variety of financial instruments, including foreign exchange forward contracts, options and interest rate swap agreements, in order to control the risks associated with the exchange rate and interest rate. Detailed information on derivative financial instruments is provided in Note 27.

Derivative instruments are recognized at fair value as of the date of the related derivative contract and are remeasured at their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss if the derivative is not designated as hedging instrument and its effectiveness is not proven.

A derivative instrument with a positive fair value is recognized as a financial asset, and a derivative instrument with a negative fair value is recognized as a financial liability. Derivative instruments are not shown clearly unless the Group has the legal right and intention to focus on these tools. When the term of the derivative instrument is longer than 12 months and is not expected to be realized or finalized within 12 months, the asset or long term liability is shown in the financial statements. The remaining derivative instruments are presented as current assets or short term liabilities.

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

2.5 Summary of Significant Accounting Policies (cont’d)

Accounting Policy Applied for Financial Instruments Until 31 December 2017

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.

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.

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

2.5 Summary of Significant Accounting Policies (cont'd)

Accounting Policy Applied for Financial Instruments Until 31 December 2017 (cont'd)

Financial assets (cont'd)

Available-for-sale financial assets (cont'd)

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.

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.

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

2.5 Summary of Significant Accounting Policies (cont'd)

Accounting Policy Applied for Financial Instruments Until 31 December 2017 (cont'd)

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.

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.

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

2.5 Summary of Significant Accounting Policies (cont'd)

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.

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.

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

2.5 Summary of Significant Accounting Policies (cont'd)

Business Combinations (cont'd)

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.

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.

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

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

2.5 Summary of Significant Accounting Policies (cont'd)

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). Metalfrio Solutions Poland SP. Z.o.o. uses Euro as its functional currency, OOO Estate and OOO Metalfrio Russia uses Ruble as its functional currency, Metalfrio 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 Group, and the presentation currency for the consolidated financial statements.

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

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

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

Financial Statements of 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).

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

2.5 Summary of Significant Accounting Policies (cont'd)

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.

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.

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

2.5 Summary of Significant Accounting Policies (cont'd)

Provisions, Contingent Assets and Liabilities

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

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

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

Warranties

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

Taxation and Deferred Income Tax

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

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

Current tax

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

Deferred tax

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

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

2.5 Summary of Significant Accounting Policies (cont'd)

Taxation and Deferred Income Tax (cont'd)

Deferred tax (cont'd)

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

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.

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.

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

2.5 Summary of Significant Accounting Policies (cont'd)

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 statemens:

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.

Provision for doubtful trade receivables

Provision for doubtful receivables is determined based on Group management's discretion according to volume of trade receivable, past experience, and general economic conditions. As of 31 December 2018, the Group's doubtful trade receivables provision is TL 18,855,465 in the statement of financial position (31 December 2017: TL 13,478,602).

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

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

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.

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

3. BUSINESS COMBINATIONS

Subsidiaries acquired

The Group acquired shares of LLC Metalfrio Solutions ("OOO Metalfrio Solutions") and LLC Estate'in ("OOO Estate") amounting to EUR 1,600,666 (TL 7,498,000) and EUR 4,105,053 (TL 19,229,300), respectively of which registered offices are located in Kaliningrad, Russian Federation, from Metalfrio Solutions A/S of which registered office is located in Viborg, Denmark on 7 February 2018.

	Principal activity	Date of acquisition	Proportion of interest acquired (%)	Consideration transferred (Euro)	Consideration transferred (TL)
OOO Metalfrio Solutions	Industrial Type Cooler and Freezer Sales	7 February 2018	100	1,600,666	7,498,000
OOO Estate	Machinery and Equipment Leasing to OOO Metalfrio Solutions for Production	7 February 2018	100	4,105,053	19,229,300
				5,705,719	26,727,300

OOO Metalfrio Solutions, which essentially makes trading of the brands Derby and Caravelle in Russia, has exporting transactions to Europe. OOO Metalfrio Solutions has existingly produces chest freezer having market shares of 30-35% in Russia. Klimasan has foreseen the positive effects that Klimasan has benefit from the procurement of raw materials, product improvement, keeping in touch with mutual corporate customers, trading of upright freezer made in Turkey to Russia, production cost optimizations and assessing the possible advantages to decrease the finance costs of OOO Metalfrio Solutions in the new structuring.

Land, buildings, machinery and other equipment where OOO Metalfrio Solutions has operated is owned by OOO Estate.

Assets acquired and liabilities assumed at acquisition date:

	OOO Metalfrio Solutions	OOO Estate	Total (TL)
Consideration Transferred	7,498,000	19,229,300	26,727,300
Less: Fair value of net asset acquired (%100)	(2,382,965)	(22,300,268)	(24,683,233)
Goodwill (*)	5,115,035	(3,070,968)	2,044,067

(*)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 prior period financial statements are not restated and the difference between the Company's share in the subsidiary's equity and the total consideration amounting to TL 2,044,067 is recognized directly under equity.

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

3. BUSINESS COMBINATIONS (cont'd)

Subsidiaries acquired (cont'd)

Assets acquired and liabilities recognized as of 1 January 2018

	OOO Metalfrio Solutions	OOO Estate	Total
Current Assets	**20,078,535**	**3,155,154**	**23,233,689**
Cash and Cash Equivalents	1,980,484	511,669	2,492,153
Trade Receivables	3,439,324	2,080,150	5,519,474
Trade Receivables from Related Parties	*33,720*	*2,080,150*	*2,113,870*
Trade Receivables from Third Parties	*3,405,604*	-	*3,405,604*
Inventories	13,254,846	178,949	13,433,795
Prepaid Expenses	710,118	259,714	969,832
Other Current Assets	693,763	124,672	818,435
Non-current Assets	**423,852**	**19,372,916**	**19,796,768**
Property, Plant and Equipment	423,852	19,372,916	19,796,768
Short-term Liabilities	**9,206,518**	**227,802**	**9,434,320**
Trade Payables	6,195,482	134,077	6,329,559
Trade Payables to Related Parties	*3,308,151*	*17,952*	*3,326,103*
Trade Payables to Third Parties	*2,887,331*	*116,125*	*3,003,456*
Other Payables	223,919	-	223,919
Deferred Income	458,419	-	458,419
Short-term Provisions	1,544,097	13,767	1,557,864
Short-term Provisions for Employment Termination Benefits	*501,079*	-	*501,079*
Other Short-term Provisions	*1,043,018*	*13,767*	*1,056,785*
Other Short-term Liabilities	784,601	79,958	864,559
Long-term Liabilities	**8,912,904**	**-**	**8,912,904**
Other Payables	8,912,904	-	8,912,904
Other Payables from Related Parties	*8,912,904*	-	8,912,904
	2,382,965	**22,300,268**	**24,683,233**

Net cash outflow on acquisition of subsidiaries;

	OOO Metalfrion Solutions	OOO Estate	Total
Consideration paid in cash	7,498,000	19,229,300	26,727,300
Less: Cash and cash equivalents acquised	(1,980,484)	(511,669)	(2,492,153)
	5,517,516	18,717,631	24,235,147

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

3. BUSINESS COMBINATIONS (cont'd)

Subsidiaries acquired (cont'd)

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) on 28 December 2017. The shares were acquired in exchange of trade receivables instead of cash.

	Principal activity	Date of acquisition	Proportion of interest acquired (%)	Consideration transferred	Consideration transferred
Sabcool Ltd.	Industrial Type Cooler and Freezer Sales	28 December 2017	90	592,640	592,640
				592,640	592,640

Assets acquired and liabilities recognized at acquisition date

	Sabcool Ltd.
Current Assets	**11,528,669**
Trade Receivables	2,189,946
Trade Receivables from Related Parties	*2,083,629*
Trade Receivables from Third Parties	*106,317*
Other Receivables	129,957
Other Receivables from Third Parties	*129,957*
Other Current Assets	9,208,766
Non-Current Assets	**129,491**
Property, Plant and Equipment	129,491
Short-term Liabilities	**11,425,955**
Trade Payables	11,425,955
Trade Payables to Related Parties	*9,342,326*
Trade Payables to Third Parties	*2,083,629*
	232,205

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.

	Sabcool Ltd.
Consideration transferred	592,640
Less: Fair value of net asset acquired (90%)	(208,985)
Goodwill	383,655

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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.

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 2018 and 2017 are disclosed below:

	31 December 2018		
	Receivables		Payables
	Trade	Non-trade	Trade
P.T. Metalfrio Solutions Indonesia	4,941,140	324,251	-
Metalfrio Solutions Soğutma Sanayi ve Ticaret A.Ş.	157,823	-	-
Metalfrio Solutions Mexico S.A.Dec.V.	790,496	-	8,854
Metalfrio Solutions A/S Denmark	10,400	-	607,320
Rome Investment Management LTD.	-	-	707,618
	5,899,859	324,251	1,323,792

	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 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
	6,803,511	33,467,284	158,768

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

4. RELATED PARTY DISCLOSURES (cont'd)

	1 January - 31 December 2018						
Transactions with related parties	Purchases	Sales	Interest income	Rent income	Commission / Royalty expenses	Consultancy expenses	Other
P.T. Metalfrio Solutions Indonesia	-	5,719,464	47,192	-	-	-	-
Metalfrio Solutions Mexico S.A.Dec.V.	-	1,565,893	-	-	-	-	-
Metalfrio Solutions A/S Denmark	7,775	-	-	-	143,895		-
Metalfrio Solutions Soğutma Sanayi ve Ticaret A.Ş.	-	-	647,147	7,938	-	160,008	-
Metalfrio Solutions Brazil	-	96,747	-	-	-	-	-
Rome Investment Management LTD.	-	-	-	-	1,402,155	-	-
	7,775	7,382,104	694,339	7,938	1,546,050	160,008	-

	1 January - 31 December 2017						
Transactions with related parties	Purchases	Sales	Interest income	Rent income	Commission / Royalty expenses	Consultancy 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.	-	-	1,341,851	8,982	-	163,810	-
Metalfrio Solutions S.A. Brazil	-	20,924	-	-	-	-	-
Rome Investment Management LTD.	-	-	-	-	226,707	-	-
	258,380	23,398,077	1,467,906	8,982	431,053	163,810	88,958

(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 from related parties, effective market interest rate is used. The interest rate applied in 2018 is 5-5,50% (2017: 4,70%-5,50%).

Details of loans to related parties as at 31 December 2018 and 31 December 2017 are disclosed below:

31 December 2018				
Loans provided to related parties	OriginalCurrency	Maturity	Interest Rate	Total
P.T. Metalfrio Solutions Indonesia	US Dollar	14 January 2019	5.5%	13,000
P.T. Metalfrio Solutions Indonesia	US Dollar	15 February 2019	5.5%	10,000
P.T. Metalfrio Solutions Indonesia	US Dollar	17 March 2019	5.5%	11,500
P.T. Metalfrio Solutions Indonesia	US Dollar	29 March 2019	5.5%	17,600

31 December 2017				
Loans provided to related parties	Original Currency	Maturity	Interest Rate	Total
Metalfrio Solutions Soğutma ve Ticaret A.Ş.	Euro	27 February 2018	4.7%	3,000,000
Metalfrio Solutions Soğutma ve Ticaret A.Ş.	US Dollar	30 September 2018	5.0%	5,000,000
P.T. Metalfrio Solutions Indonesia	US Dollar	13 February 2018	5.5%	17,000
P.T. Metalfrio Solutions Indonesia	US Dollar	3 March 2018	5.5%	50,000

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 period is disclosed below:

	31 December 2018	31 December 2017
Salaries and other short-term benefits	7,376,605	5,549,443
	7,376,605	5,549,443

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

5. TRADE RECEIVABLES AND PAYABLES

a) Trade Receivables

The details of the Group’s short-term trade receivables as of 31 December 2018 and 31 December 2017 are as follows:

Movement of allowance for doubtful trade receivables	31 December 2018	31 December 2017
Trade receivables	163,601,667	67,772,350
Trade receivables from related parties (Note 4)	5,899,859	6,803,511
Notes receivable	14,692,781	15,798,939
Allowance on doubtful trade receivables (-)	(18,574,339)	(13,478,602)
Expected credit loss provision (-)	(281,126)	-
Unaccrued finance expense on trade receivables (-)	(1,582,868)	(834,370)
Unaccrued finance expense on notes receivable (-)	(751,906)	(400,332)
	163,004,068	75,661,496

Trade receivables are amounts due from customers for services performed in the ordinary course of business. They are generally settlement within 60 days and therefore are all classified as current. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor’s current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. Allowances for doubtful receivables are recognized against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty. %50 of all receivables from non-related parties whose maturity is between 180-360 days, provides %100 provision for all receivables from related parties whose maturity is over 360 days. As of 31 December 2018, the Group has recognized the expected loss provision in the consolidated financial statements amounting to TL 281,126.

There has been no change in the estimation techniques or significant assumptions in the current period.

As of 31 December 2018 and 2017, the Group does not have long term trade receivables.

Composition and degree of the Group’s trade receivable risks are explained in Note 29.

Movements on the Group’s provision for allowance for doubtful receivables as of 31 December 2018 and 2017 are as follows:

Movement of allowance for doubtful trade receivables	2018	2017
Balance at 1 January	(13,478,602)	(11,476,342)
Charge for the period (Note 21)	(1,200,105)	(47,322)
Foreign currency exchange differences	(4,417,563)	(2,309,414)
Effect of acquisition	(143,067)	-
Collections	72,479	354,476
Written off receivables	311,393	-
Balance at 31 December	(18,855,465)	(13,478,602)

(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 2018 and 31 December 2017 are as follows:

Short-term Trade Payables	31 December 2018	31 December 2017
Trade payables	164,767,034	136,152,310
Trade payables to related parties (Note 4)	1,323,792	158,768
Unaccrued finance income for trade payables (-)	(1,242,709)	(790,163)
	164,848,117	135,520,915

Explanations on exchange rate risk to which the Group is exposed to trade payables are disclosed in Note 29.

The average credit period on trade payables is 95 days (31 December 2017: 103 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 2018 and 31 December 2017 are as follows:

Other Short-term Receivables	31 December 2018	31 December 2017
Receivables from related parties (Note 4)	324,251	33,467,284
Receivables from customs	1,437,927	1,263,916
Receivables from personnel	417,978	421,431
Other receivables	418,600	380,314
	2,598,756	35,532,945

Other Long-term Receivables	31 December 2018	31 December 2017
Guarantee and deposits given	12,564	12,564
	12,564	12,564

The explanations regarding the nature and level of risks in other receivables of the Grup are included in Note 29.

(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 2018 and 2017 are as follows:

Other Short-term Payables	31 December 2018	31 December 2017
Other liabilities	1,021,258	338,097
	1,021,258	338,097

Other Long-term Payables	31 December 2018	31 December 2017
Guarantee and deposits received	18,845	28,845
	18,845	28,845

7. INVENTORIES

The details of the inventories as of 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Raw materials	78,994,016	49,990,137
Finished goods	40,796,037	47,301,380
Work in progress	6,086,857	3,327,508
Other inventories	1,767,533	1,059,714
Trade goods	716,271	1,838,542
Allowance for impairment on inventory (-)	(4,087,848)	(61,948)
	124,272,866	103,455,333

The cost of inventories recognized as expense and included in cost of sales amounted to TL 434,239,738. (31 December 2018: TL 261,784,802).

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

Movement of allowance for impairment on inventory	2018	2017
Balance at 1 January	(61,948)	(617,370)
(Charge) /reversal for the period, net	(2,014,500)	555,422
Effect of acquisition	(1,721,601)	-
Foreign currency exchange difference	(289,799)	-
Balance at 31 December	(4,087,848)	(61,948)

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

8. PREPAID EXPENSES AND DEFERRED INCOME

Short-term Prepaid Expenses	31 December 2018	31 December 2017
Advances given to suppliers	19,553,089	12,374,737
Prepaid expenses to customs	1,275,132	1,227,939
Business advances given	749,322	412,952
Short-term prepaid expenses	2,455,626	949,112
	24,033,169	14,964,740

Long-term Prepaid Expenses	31 December 2018	31 December 2017
Advances given for fixed asset purchases	154,614	398,071
Long-term prepaid expenses	25,375	83,767
	179,989	481,838

Short-term Deferred Income	31 December 2018	31 December 2017
Advances received	5,241,237	2,153,518
Deferred income	-	28,036
	5,241,237	2,181,554

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

9. PROPERTY, PLANT AND EQUIPMENT

The movement for property, plant and equipment as of 31 December 2018 is as follows:

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other tangible assets	Leasehold Improvements	Construction in progress	Total
Cost Value										
Opening balance as of 1 January 2018	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
Assets acquired by acquisition (Note 3)	480,379	-	24,133,156	10,765,638	404,881	993,358	-	-	248,108	37,025,520
Additions	-	4,380	956,799	5,328,771	137,315	2,565,903	247,580	93,900	8,080,963	17,415,611
Disposals	-	-	(51,233)	(2,150,141)	(25,443)	(611,305)	-	(116,230)	-	(2,954,352)
Transfers	-	-	503,227	16,167,101	-	176,098	3,339	(26,481)	(16,868,746)	(45,462)
Foreign currency translation differences	80,862	-	4,062,350	1,812,187	68,156	167,213	-	-	41,764	6,232,532
Closing balance as of 31 December 2018	2,998,804	722,575	48,587,521	111,014,028	590,271	18,267,145	1,064,768	352,533	1,696,260	185,293,905
Accumulated Depreciation										
Opening balance as of 1 January 2018	-	(364,245)	(4,006,740)	(45,826,039)	(1,658)	(10,120,041)	(474,742)	(101,416)	-	(60,894,881)
Assets acquired by acquisition (Note 3)	-	-	(7,521,830)	(8,652,328)	(342,693)	(711,901)	-	-	-	(17,228,752)
Charge for the period	-	(48,026)	(1,731,639)	(8,251,333)	(70,368)	(1,807,342)	(73,446)	(172,784)	-	(12,154,938)
Disposals	-	-	51,233	2,019,239	25,443	601,239	-	84,950	-	2,782,104
Foreign currency translation differences	-	-	(1,266,155)	(1,456,452)	(57,686)	(119,835)	-	-	-	(2,900,128)
Transfers	-	-	-	(12,137)	-	-	-	12,137	-	-
Closing balance as of 31 December 2018	-	(412,271)	(14,475,131)	(62,179,050)	(446,962)	(12,157,880)	(548,188)	(177,113)	-	(90,396,595)
Carrying value as of 31 December 2018	2,998,804	310,304	34,112,390	48,834,978	143,309	6,109,265	516,580	175,420	1,696,260	94,897,310

TL 11,240,401 of depreciation and amortization expenses was allocated to cost of goods sold, (31 December 2017: TL 5,258,729), TL 591,933 to marketing expenses (31 December 2017: TL 322,061), TL 702,829 to administrative expenses and (31 December 2017: TL 509,772),TL 5,483,071 to research and development (31 December 2017: 4,998,710 TL).

As of 31 December 2018, the total amount of insurance on plant, property and equipment is TL 279,920,457 (31 December 2017: TL 177,005,450).

(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 2017 is as follows:

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other tangible assets	Leasehold Improvements	Construction in progress	Total
Cost Value										
Opening balance as of 1 January 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
Accumulated Depreciation										
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)
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

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

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

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

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

10. INTANGIBLE ASSETS

The movement for intangible assets as of 31 December 2018 is as follows:

	Capitalized development expenses	Rights	Construction in progress	Total
Cost Value				
Opening balance as of 1 January 2018	34,437,841	3,708,345	2,717,379	40,863,565
Additions	-	784,740	9,617,109	10,401,849
Transfers from construction in progress	9,213,759	45,462	(9,213,759)	45,462
Closing balance as of 31 December 2018	43,651,600	4,538,547	3,120,729	51,310,876
Accumulated Amortization				
Opening balance as of 1 January 2018	(19,713,325)	(3,263,845)	-	(22,977,170)
Charge for the period	(5,457,458)	(405,838)	-	(5,863,296)
Closing balance as of 31 December 2018	(25,170,783)	(3,669,683)	-	(28,840,466)
Carrying value as of 31 December 2018	18,480,817	868,864	3,120,729	22,470,410

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

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

10. INTANGIBLE ASSETS (cont’d)

The movement for intangible assets as of 31 December 2017 is as follows:

	Capitalized development expenses	Rights	Construction in progress	Total
Cost Value				
Opening balance as of 1 January 2017	29,121,017	3,275,162	1,040,094	33,436,273
Charge for the period	-	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	34,437,841	3,708,345	2,717,379	40,863,565
Accumulated Amortization				
Opening balance as of 1 January 2017	(15,240,602)	(2,939,934)	-	(18,180,536)
Charge for the period	(4,472,723)	(330,786)	-	(4,803,509)
Disposals	-	6,875	-	6,875
Closing balance as of 31 December 2017	(19,713,325)	(3,263,845)	-	(22,977,170)
Carrying value as of 31 December 2017	14,724,516	444,500	2,717,379	17,886,395

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

11. GOODWILL

	2018	2017
Cost value		
Opening balance	383,655	-
Additional amounts recognised from business combinations occuring during the year	-	383,655
Closing balance	383,655	383,655

Goodwill amounting to TL 383,655 arises from the puchase of Sabcool Ltd on 28 December 2017.

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

12. GOVERNMENT GRANT AND INCENTIVES

The incentive certificate of the Company dated 15 May 2014 and numbered 114837 given by the Ministry of Economy is revised as 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. For the closing of the completion visa of the certififcate numbered C 114837 application was made to the Directorate General of Incentive Implementation and Foreign Investment on 6 February 2018 and completion visa was obtained on 4 July 2018 and this incentive certificate is closed.

Incentive certificate dated 6 March and numbered 135809 was obtained from the the Ministry of Economy Directorate General of Incentive Implementation and Foreign Investment with the domestic and import list.

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 February 2017 and numbered 29987, for the investment expenditures realized between 1 January 2017 and 31 December 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.

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.

13. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

The details of the Group’s other short-term provisions as of 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Warranty provisions (i)	5,633,884	3,226,783
Legal provisions (ii)	1,460,016	995,887
Other provisions	10,513	45,636
	7,104,413	4,268,306

(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 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 2018.

(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 2018 and 2017 are as follows:

Warranty provisions

	2018	2017
Balance at 1 January	3,226,783	2,357,549
Effect of acquisition	763,460	-
Provision expense, net	1,515,128	869,234
Foreign currency translation difference	128,513	-
Provision at 31 December	5,633,884	3,226,783

The movement for legal provision as of 31 December 2018 and 31 December 2017 are as follows:

Legal provisions

	2018	2017
Balance at 1 January	995,887	745,380
Payments	(384,759)	(25,651)
Additional provision	848,888	276,158
Provision at 31 December	1,460,016	995,887

14. COMMITMENTS

Guarantees-Pledge-Mortgage ("GPM")

The Group's GPM position as at 31 December 2018 and 2017 is as follows:

31 December 2018	TL Equivalent	Euro	US Dollar	TL
The Total of GPM That Are Given in the Name of Its Own Legal Personality	246,969,389	34,973,958	6,100,000	4,054,880
- *Guarantees*	246,969,389	34,973,958	6,100,000	4,054,880
Total	246,969,389	34,973,958	6,100,000	4,054,880

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
- *Guarantees*	185,057,683	38,988,767	1,917,270	1,772,155
Total	185,057,683	38,988,767	1,917,270	1,772,155

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

14. COMMITMENTS (cont'd)

The Group's guarantees position as at 31 December 2018 and 31 December 2017 is as follows:

	31 December 2018	31 December 2017
Eximbank loans (*)	207,206,219	164,427,465
Ziraat Bank International A.G. (**)	-	10,541,938
Suppliers	22,556,040	8,356,125
Customers	16,904,157	511,560
Industrial Zone	-	368,560
Custom Offices	6,718	110,763
Other	296,255	741,272
Total contingent liabilities	246,969,389	185,057,683

(*) 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 2018	31 December 2017
Social security premiums payable	1,928,757	1,739,360
Due to personnel	2,916,004	1,628,061
	4,844,761	3,367,421

Short-term provisions for employee benefits:

	31 December 2018	31 December 2017
Bonus accruals	2,505,969	1,250,000
Unused vacation liabilities	829,595	999,348
	3,335,564	2,249,348

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

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

As of 31 December 2018 and 31 December 2017, bonus accrual movement is as follows:

	2018	2017
Balance at January 1	1,250,000	2,100,000
Payments	(1,718,870)	(1,500,056)
Effect of acquisition (Note 3)	501,079	-
Additional provision	2,389,413	650,056
Foreign currency translation difference	84,347	-
Provision at 31 December	2,505,969	1,250,000

As of 31 December 2018 and 31 December 2017, unused vacation liability movement is as follows:

	2018	2017
Balance at January 1	999,348	649,131
Payments	(2,118,628)	(1,015,177)
Additional provision	1,948,875	1,365,394
Provision at 31 December	829,595	999,348

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).

As of 31 December 2018, payable retirement pay liability has monthly TL 5,434.42 (31 December 2017: TL 4,732.48) ceiling amount. 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 of 31 December 2018, 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 5.50% real discount rate (31 December 2017: 4.21%) calculated by using 9.0% annual inflation rate and 15.00% discount rate. Estimated amount of retirement pay not paid due to voluntary leaves is also taken into consideration as, 6.37% 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 resived semiannually, and the ceiling amount of 6,017.60 TL which is in effect since 1 January 2019 is used in the calculation of Group's provision for retirement pay liability.

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

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

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

Provision for retirement pay liability (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 824,501 (TL 691,121).

- 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 167,213 (187,085 TL).

As of 31 December 2018 and 31 December 2017, the provision for retirement pay movement is as follows:

	2018	2017
Provision at 1 January	5,818,550	4,894,724
Service cost	2,907,863	1,733,025
Interest cost	244,705	206,819
Payments	(1,541,905)	(945,033)
Actuarial gain	(841,253)	(70,985)
Provision at 31 December	6,587,960	5,818,550

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

16. EXPENSES BY NATURE

Details of expenses by nature based on function for the year ended 31 December 2018 and 2017 are disclosed in Note 19 and 20.

	1 January-31 December 2018	1 January-31 December 2017
Raw material expenses	(430,493,744)	(293,752,568)
Payroll expenses	(91,606,240)	(59,201,032)
Production overheads	(24,408,486)	(14,094,732)
Depreciation and amortization expenses (Note 9, 10)	(18,018,234)	(11,089,272)
Transportation expenses	(10,695,437)	(7,585,114)
Warranty expenses	(7,125,881)	(5,423,249)
Rent expenses	(6,688,949)	(3,983,748)
Change in finished goods inventory	(6,505,343)	30,094,061
Custom expenses	(5,559,325)	(433,311)
Consultancy expenses	(3,834,363)	(2,398,455)
Advertising expenses	(3,512,023)	(1,816,191)
Outsourcing expenses	(3,017,072)	(2,124,131)
Travelling expenses	(2,867,266)	(2,054,129)
Installation expenses	(1,185,132)	(629,770)
Attendance fee of board of directors	(992,504)	(660,000)
Accommodation expenses	(786,621)	(861,732)
Insurance expenses	(547,873)	(617,693)
Taxes and other legal dues	(543,255)	(313,019)
Training expenses	(399,059)	(326,796)
Packaging expenses	(390,723)	(231,974)
Change in work in progress inventory (Note 7)	2,759,349	1,873,705
Other	(33,122,536)	(20,277,256)
	(649,540,717)	(395,906,407)

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

17. OTHER ASSETS AND LIABILITIES

The details of the other current assets as of 31 December 2018 and 2017 are as follows:

Other Current Assets	31 December 2018	31 December 2017
Restricted bank deposits	-	9,208,766
VAT return	272,314	4,515,838
Deferred VAT	2,499,169	6,625,657
Other current assets	59,195	158,798
	2,830,678	20,509,059

The details of the other current liabilities as of 31 December 2018 and 2017 are as follows:

Other Short-term Liabilities	31 December 2018	31 December 2017
Excise tax payable	-	1,250,492
VAT payable	1,973,355	33,022
Taxes and funds payable	358,164	-
	2,331,519	1,283,514

(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 2018 and 31 December 2017, the share capital held is as follows:

Shareholders	Share Type	%	31 December 2018	%	31 December 2017
Metalfrio Solutions Soğutma Sanayi ve Tic. A.Ş.	A	43.4	17,186,400	43.4	14,357,540
Metalfrio Solutions Soğutma Sanayi ve Tic. A.Ş.	B	8.8	3,484,800	8.8	2,887,500
Metalfrio Solutions Soğutma Sanayi ve Tic. A.Ş.	C	8.8	3,484,800	8.8	2,887,500
Publicly traded (*)	D	39.0	15,444,000	39.0	12,867,460
Nominal capital		100	39,600,000	100	33,000,000
Inflation adjustment differences			980,882		980,882
Adjusted capital			40,580,882		33,980,882

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

At 31 December 2018, the paid-in capital of the Group comprised 3,960,000,000 shares issued TL 0.01 each (31 December 2017: 3,300,000,000). The privileges given to ordinary shares are as follows:

At 31 December 2018 and 2017, 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.

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.

(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)

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.

On 25 May 2018, on the Company General Assembly, distribution of dividend amounting TL 1,000,000 to the Company's shareholders was decided and the distribution of dividend took place on 20 September 2018.

The net distributable profit for the year 2017 is TL 14,696,757 in the financial statements of the Group prepared in accordance with the CMB Legislation. In the financial statements prepared in accordance with CMB Legislation, when the donations paid during the year are added, the net distributable profit with the donations added is TL 14,698,707.

b) Restricted Reserves Appropriated from Profit

As of 31 December 2018 and 2017, restricted reserves appropriated from profit is as follows:

	31 December 2018	31 December 2017
Restrictred reserves seperated from the profit	5,666,104	5,666,104
	5,666,104	5,666,104

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

19. REVENUE

The Group handles the goods and services and performs the performance obligations at a certain time.

a) Sales

	1 January- 31 December 2018	1 January- 31 December 2017
Domestic sales	426,145,762	218,094,135
Export sales	290,936,552	193,804,193
Other sales (*)	41,185,458	29,515,682
Sales deductions and discounts (**)	(40,885,274)	(14,708,420)
	717,382,498	426,705,590

(*) 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 2018	1 January- 31 December 2017
Raw materials expenses	(430,493,744)	(293,752,568)
Personnel expenses	(67,028,258)	(42,749,664)
Production overheads	(24,408,486)	(14,094,732)
Depreciation and amortization expenses (Note 9,10)	(11,240,401)	(5,258,729)
Change in finished goods inventories (Note 7)	(6,505,343)	30,094,061
Change in work in progress inventories (Note 7)	2,759,349	1,873,705
Other	(30,835,149)	(18,896,229)
	(567,752,032)	(342,784,156)

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

	1 January- 31 December 2018	1 January- 31 December 2017
General administrative expenses (-)	(21,335,829)	(14,195,302)
Marketing and sales expenses (-)	(54,969,785)	(33,909,602)
Research and development expenses (-)	(5,483,071)	(5,017,347)
	(81,788,685)	(53,122,251)

(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 2018	1 January- 31 December 2017
Payroll expenses	(11,573,180)	(7,744,582)
Consultancy expenses	(3,241,803)	(1,851,857)
Outsource expenses	(1,094,734)	(649,000)
Depreciation and amortization expenses (Note 9, 10)	(702,829)	(509,772)
Attendance fee of board of directors	(992,504)	(660,000)
Taxes and other legal dues	(543,255)	(313,019)
Rent expenses	(582,226)	(434,557)
Travel expenses	(564,751)	(463,722)
Accommodation expenses	(434,632)	(356,279)
Insurance expenses	(222,398)	(227,475)
Training expenses	(223,762)	(196,130)
Other	(1,159,755)	(788,909)
	(21,335,829)	(14,195,302)

b) Marketing expenses

	1 January- 31 December 2018	1 January- 31 December 2017
Payroll expenses	(13,004,802)	(8,706,786)
Transportation expenses	(10,695,437)	(7,585,114)
Warranty expenses	(7,125,881)	(5,423,249)
Rent expenses	(6,106,723)	(3,549,191)
Outsource expenses	(1,922,338)	(1,475,131)
Travel expenses	(2,302,515)	(1,590,407)
Custom expenses	(5,559,325)	(433,311)
Advertising expenses	(3,512,023)	(1,816,191)
Training expenses	(175,297)	(130,666)
Depreciation and amortization expenses (Note 9, 10)	(591,933)	(322,061)
Insurance expenses	(325,475)	(390,218)
Packaging expenses	(390,723)	(231,974)
Accommodation expenses	(351,989)	(505,453)
Installation expenses	(1,185,132)	(629,770)
Consultancy expenses	(592,560)	(546,598)
Other	(1,127,632)	(573,482)
	(54,969,785)	(33,909,602)

(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 2018	1 January- 31 December 2017
Depreciation and amortization expenses (Note 9, 10)	(5,483,071)	(4,998,710)
Other	-	(18,637)
	(5,483,071)	(5,017,347)

21. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

The details of other income from operating activities for the years ended 31 December 2018 and 31 December 2017 are as follows:

	1 January- 31 December 2018	1 January- 31 December 2017
Foreign currency gains from operations, net	12,560,461	6,248,787
Interest income of trade receivables	43,918	124,853
Income from scrap sales	1,525,949	1,237,834
Income from tax incentives related to R&D	1,246,991	905,908
Provisions released (Note 5)	72,479	354,476
Discount income/loss, net	-	284,946
Other income	5,498	592,817
	15,455,296	9,749,621

	1 January- 31 December 2018	1 January- 31 December 2017
Provision for doubtful trade receivables (Note 5)	(1,200,105)	(47,322)
Discount income / (expense) , net	(647,527)	-
Provision for legal claims (Note 13)	(848,888)	(276,158)
Other income	(955,987)	(362,512)
	(3,652,507)	(685,992)

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

22. INCOME AND EXPENSES FROM INVESTING ACTIVITIES

The details of other income from investing activities for the years ended 31 December 2018 and 31 December 2017 are as follows:

Income from investing activities

	1 January-31 December 2018	1 January-31 December 2017
Increase in value of financial investments (*)	26,877,244	38,193,935
Interest income	19,369,582	19,545,670
- Eurobond interest income	12,852,386	16,076,493
- Bank deposit interest income	5,822,857	2,001,271
- Interest income from related party loans	694,339	1,467,906
Foreign exchange gains related to investing activities, net	1,777,381	21,652,566
Fixed asset sales income	211,884	179,732
	48,236,091	79,571,903

Expenses from investing activities

	1 January-31 December 2018	1 January-31 December 2017
Decrease in value of financial investments (*)	(6,888,997)	(36,209,872)
	(6,888,997)	(36,209,872)

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

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

23. FINANCE INCOME AND EXPENSES

Finance income / loss (net)	1 January - 31 December 2018	1 January - 31 December 2017
Bank loan interest expenses	(18,141,524)	(12,555,838)
Other interest expenses	(1,895,008)	(274,685)
Foreign exchange expenses, net	(73,641,015)	(54,591,305)
Forward transactions income / (loss), net	43,215,013	1,272,811
Other finance expenses (-)	(3,226,822)	(3,665,750)
	(53,689,356)	(69,814,767)

24. ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS

	31 December 2018	31 December 2017
Gains on Remeasurement of Defined Benefit Plans	(2,247,776)	(2,920,778)
Foreign Currency Translation Differences	5,774,555	842,853
	3,526,779	(2,077,925)

Foreign Currency Translation Differences	1 January - 31 December 2018	1 January - 31 December 2017
Opening Balance	842,853	228,305
Foreign Exchange Translation Difference from Subsidiaries Operating Abroad	4,931,702	614,548
Closing Balance	5,774,555	842,853

Gains on Remeasurement of Defined Benefit Plans	1 January - 31 December 2018	1 January - 31 December 2017
Opening Balance	(2,920,778)	(2,977,566)
Current Period	841,253	70,985
Deferred Tax Profit Related to Gains on Remeasurement of Defined Benefit Plans	(168,251)	(14,197)
Closing Balance	(2,247,776)	(2,920,778)

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

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

	31 December 2018	31 December 2017
Current tax liability / (asset)		
Current corporate tax provision	1,862,449	-
Less: Prepaid taxes and funds	(736,712)	-
	1,125,737	-

Income tax recognized in profit or loss

	1 January- 31 December 2018	1 January- 31 December 2017
Current tax expense	(1,862,449)	-
Deferred tax income relating to origination and reversal of temporary differences	(5,156,984)	1,283,956
Total tax expense	(7,019,433)	1,283,956

Deferred tax	1 January- 31 December 2018	1 January- 31 December 2017
Recorded directly in equity:		
- Acturial gain	168,251	14,197
	168,251	14,197

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 Polish corporate taxes. The effective tax rate in 2018 is 19% (2017: 19%).

Metalfrio West Africa operates in Nigeria and is subject to Nigerian corporate taxes. The effective tax rate in 2018 is 30% (2017: 30%).

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

Corporate Tax (cont'd)

OOO Metalfrio Solutions operates in Russia and is subject to Russian corporate taxes. The effective tax rate in 2018 is 20% (2017: 20%).

Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. However, tax authorities may 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.

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 (2017: 20%).

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

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

Movement of deferred tax asset and liabilities for the period ended 31 December 2018 and 31 December 2017 are as follows:

Deferred tax assets / (liabilities):	31 December 2018	31 December 2017
Deferred tax asset arising from investment incentive	-	3,635,777
Deferred tax asset arising from R&D incentive discount	-	1,384,065
Carry forward tax losses recognized as deferred tax asset	-	1,242,949
Provision for employment termination benefits	1,317,592	1,163,710
Provision for warranty	1,085,615	645,522
Seasonality adjustments and impairment on inventory	754,271	335,676
Adjustments related to unaccrued finance expense for trade receivables and notes receivables	513,649	271,634
Adjustments for the other provisions	222,110	244,140
Provision for bonuses	570,478	275,000
Unused vacation provision	182,511	219,857
Adjustments related to legal claims	321,203	219,095
Adjustments related to the sales commission and rebates	471,936	96,162
Valuation differences on the debentures and bonds	(3,241,640)	(2,591,599)
Depreciation adjustments for tangible assets and amortisation adjustments for intangible assets	(1,358,139)	(1,150,160)
Valuation differences of derivative instruments	(246,597)	(239,702)
Adjustments related to unaccrued finance income for trade payables	(273,395)	(173,836)
Adjustments related to allowance for doubtful receivables	154,433	-
Other	(343,344)	(122,372)
	130,683	5,455,918

Movement of deferred tax assets:	2018	2017
Opening balance as of 1 January	5,455,918	4,186,159
Charged to profit or loss	(5,156,984)	1,283,956
Charged to equity	(168,251)	(14,197)
Closing balance as of 31 December	130,683	5,455,918

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

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

Reconcilation of tax charge:	1 January- 31 December 2018	1 January- 31 December 2017
Profit before tax	67,302,308	13,410,076
Income tax rate of 22% (2017: 20%)	14,806,508	2,682,015
Tax effects of:		
- revenue is exempt from taxation	(292,271)	(178,258)
- non-deductible expenses	218,180	158,742
- expenses that are subject to reduced corporate tax within the scope of investment incentives	(7,380,606)	(3,635,777)
- deduction of previous year losses from current period tax	(101,612)	-
- research and development inventives and other discounts	(2,193,525)	(1,384,065)
- tax rate change from 20% to 22%	-	78,717
- current period losses without deferred tax calculated	2,119,529	18,165
- other	(156,770)	976,505
Income tax expense recognised in profit or loss	7,019,433	(1,283,956)

26. EARNINGS PER SHARE

The computation for the periods ended 31 December 2018 and 2017 is as follows:

Earnings per share	1 January- 31 December 2018	1 January- 31 December 2017
Number of weighted average of ordinary shares which has TL 1 for 100 item nominal value	39,600,000	39,600,000
Net profit for the period	60,282,875	14,694,032
Earnings per share	1.5223	0.3711

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

27. 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 2018	31 December 2017
Derivative financial assets		
Derivatives not associated with hedge accounting		
Forward contracts	6,968,457	1,089,555
	6,968,457	1,089,555
Derivative financial liabilities		
Derivatives not associated with hedge accounting		
Forward contracts	(5,847,561)	-
	(5,847,561)	-

	31 December 2018	31 December 2017
Derivative assets	6,968,457	1,089,555
Derivative liabilities	(5,847,561)	-
The statement of financial position net amount	1,120,896	1,089,555
Net amount	1,120,896	1,089,555

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

27. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

The forward foreign exchange contracts regarding the foreign currency risks of 31 December 2018 and 2017 are as follows:

Forward contracts	31 December 2018	31 December 2017
Sales Contract - US Dollar (against Euro)	12,616,500	24,036,000
Sales Contract - Euro (against US Dollar)	10,000,000	-
Purchase Contract - Euro (against US Dollar)	10,000,000	20,000,000
Purchase Contract - US Dollar (against Euro)	11,845,000	-
Sales Contract - US Dollar (against TL)	5,000,000	-
Sales Contract - Euro (against TL)	4,500,000	-
Purchase Contract - US Dollar (against TL)	5,000,000	-
Purchase Contract - Euro (against TL)	4,500,000	-

28. FINANCIAL INSTRUMENTS

Financial Investments

Financial assets at fair value through profit or loss

	31 December 2018	31 December 2017
Financial Assets at Fair Value Through the Statement of Profit or Loss		
Eurobonds	261,498,393	151,146,340
Investment funds (*)	62,893,379	-
Marketable securities (**)	321,600	-
	324,713,372	151,146,340

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 perfoms transactions regardless of maturity in accordance with the current market conditions. Current portfolio consisting of 81% US Dollar and 19% Euro, the Eurobond portfolio are valued at market prices each period and profit or loss effect is presented periodically in the consolidated financial statements.

(*) Group's investment funds comprises of Kondor Fund SPC funds.

(**) Group's marketable securities comprises of Teekay LNG securities.

Financial Liabilities

	31 December 2018	31 December 2017
Short-term	16,104,395	-
Short-term portion of long-term borrowings	168,307,972	78,678,177
Long-term	284,078,598	264,613,574
	468,490,965	343,291,751

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

28. FINANCIAL INSTRUMENTS (cont'd)

Financial Liabilities (cont'd)

Details of the borrowings are as follows:

Currency type	Weighted average effective interest rate	31 December 2018 Short-term	31 December 2018 Long-term
Euro	2.35% - 4.40%	184,412,367	284,078,598
		184,412,367	284,078,598

Currency type	Weighted average effective interest rate	31 December 2017 Short-term	31 December 2017 Long-term
Euro	2.35% - 4.30%	40,945,174	264,613,574
US Dollar	3% - 4.50%	37,733,003	-
		78,678,177	264,613,574

The borrowings are repayable as follows:

	31 December 2018	31 December 2017
To be paid within 1 year	184,412,367	78,678,177
To be paid between 1-2 years	157,552,036	108,860,243
To be paid between 2-3 years	43,362,898	98,066,477
To be paid between 3-4 years	18,595,951	12,541,263
To be paid between 4-5 years	18,595,433	9,029,627
To be paid in more than 5 years	45,972,280	36,115,964
	468,490,965	343,291,751

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 consolidated statement of cash flows of the Group.

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

28. FINANCIAL INSTRUMENTS (cont'd)

Financial Liabilities (cont'd)

				Non-cash changes		
	1 January 2018	Financial cash inflows	Financial cash outflows	Movements of exchange differences	Interest accrual	31 December 2018
Bank loans	343,291,751	99,020,944	(105,881,297)	126,943,799	5,115,768	468,490,965
	343,291,751	99,020,944	(105,881,297)	126,943,799	5,115,768	468,490,965

				Non-cash changes		
	1 January 2017	Financial cash inflows	Financial cash outflows	Movements of exchange differences	Interest accrual	31 December 2017
Bank loans	335,289,288	83,576,639	(138,611,954)	61,237,353	1,800,425	343,291,751
	335,289,288	83,576,639	(138,611,954)	61,237,353	1,800,425	343,291,751

29. 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 28, 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.

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

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

a) Capital risk management (cont'd)

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 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Financial Liabilities	468,490,965	343,291,751
Less: Cash and Cash Equivalents and Short-term Financial Investments	(438,587,513)	(302,918,297)
Net Debt	29,903,452	40,373,454
Total Equity	209,572,181	146,728,669
Total Share Capital	239,475,633	187,102,123
Net Debt / Total Equity Ratio	12%	22%

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.

b.1) Credit risk management

In order to minimise credit risk, the Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group monitors the credibility of the parties with whom they perform transactions and also takes into account the credit rating of the related instruments when making the investment preference. The credit rating information is supplied by independent rating agencies where available and, if not available, the Company uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

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

b) Financial Risk Factors (cont'd)

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

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

Credit approvals and other monitoring procedures are also in place to ensure that follow-up action is taken to recover overdue debts. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased. Additionally, the Group management evaluates the trade payables and financial assets on a customer and asset basis at the end of the period and ensures that the required provisions for the non-collectible amounts are reflected in the financial statements. In this context, the Group management believes that the Group's credit risk has decreased significantly as of the reporting date.

Overview of the Group's exposure to credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at 31 December 2018, the Group's maximum exposure to credit risk due to failure to discharge an obligation by the counterparties arises from:

- Registered values of the financial assets in the consolidated statement of financial position.

Category	Description	Basis for recognizing expected credit losses
Performing	The counterparty has a low risk of default and does not have any past-due amounts.	Lifetime expected credit losses
Doubtful	Amount is more than 120 days past due or there has been a significant increase in credit risk since initial recognition.	Lifetime expected credit losses – not credit impaired
In default	Amount is more than 180 days past due or there is evidence indicating the asset is credit-impaired	Lifetime expected credit losses – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery	Amount is written off

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

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

b) Financial Risk Factors (cont'd)

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

Details of credit risk by class of financial instruments	Receivables					
	Trade Receivables		Other Receivables			
31 December 2018	Related Party	Other	Related Party	Other	Deposits at Banks	Financial Investments
Maximum credit risk as of reporting date (A+B+C+D) (*)	5,899,859	157,104,209	324,251	2,287,069	113,827,266	324,713,372
- Portion of maximum risk secured by guarantees etc. (**)	-	5,631,804	-	-	-	-
A. Net carrying value of neither past due nor impaired financial assets	974,697	142,395,236	324,251	2,287,069	113,827,266	324,713,372
B. Net carrying value of past due but nor impaired financial assets	4,925,162	14,708,973	-	-	-	-
C. Net carrying value of impaired financial assets						
- Past due (gross carrying value)	-	18,855,465	-	-	-	-
- Impairment (-)	-	(18,855,465)	-	-	-	-
- Net value part secured with collateral	-	-	-	-	-	-
- Undue (gross carrying value)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Net value part secured with collateral	-	-	-	-	-	-
D. Credit risk included off the balance sheet items	-	-	-	-	-	-

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

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

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

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

b) Financial Risk Factors (cont'd)

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

Details of credit risk by class of financial instruments	Receivables					
	Trade Receivables		Other Receivables			
31 December 2017	Related Party	Other	Related Party	Other	Deposits at Banks	Financial Investments
Maximum credit risk as of reporting date (A+B+C+D) (*)	6,803,511	68,857,985	33,467,284	2,078,225	160,933,423	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	160,933,423	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.

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 trade receivables.

Trade Receivables	31 December 2018	31 December 2017
Past due up to 30 days	6,543,801	11,247,386
Past due 1 - 3 months	6,537,920	2,672,163
Past due 3 - 12 months	5,117,159	1,439,717
Past due 1 - 5 year	1,435,255	2,089,687
Total past due receivables	**19,634,135**	**17,448,953**
Guaranteed proportion	1,960,947	4,976,245

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

29. 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 accesiblity 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. Interests to be paid on these liabilities are included in the table below:

31 December 2018

Contract Terms	Carrying value	Total cash outflows as per the terms of agreement (I+II+III+IV)	Less than 3 months (I)	Between 3-12 months (II)	Between 1-5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Bank borrowings	(468,490,965)	(499,024,778)	(28,734,294)	(167,367,335)	(251,375,971)	(51,547,178)
Trade payables	(164,848,117)	(166,101,338)	(152,495,036)	(13,606,302)	-	-
Other payables	(1,040,103)	(1,040,103)	(1,021,258)	-	(18,845)	-
Total liabilities	**(634,379,185)**	**(666,166,219)**	**(182,250,588)**	**(180,973,637)**	**(251,394,816)**	**(51,547,178)**
Derivative cash inflows	6,968,457	121,785,765	24,820,150	96,965,615	-	-
Derivative cash outflow	(5,847,561)	(120,664,869)	(22,604,000)	(98,060,869)	-	-

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

29. 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 2017

Contract Terms	Carrying value	Total cash outflows as per the terms of agreement (I+II+III+IV)	Less than 3 months (I)	Between 3-12 months (II)	Between 1-5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Bank borrowings	(343,291,751)	(372,090,783)	(5,785,570)	(82,481,757)	(245,013,595)	(38,809,861)
Trade payables	(135,520,915)	(136,311,078)	(123,198,972)	(13,066,826)	(45,280)	-
Other payables	(366,942)	(366,942)	(338,097)	-	(28,845)	-
Total liabilities	**(479,179,608)**	**(508,768,803)**	**(129,322,639)**	**(95,548,583)**	**(245,087,720)**	**(38,809,861)**
Derivative cash inflows	1,089,555	90,310,000	-	90,310,000	-	-
Derivative cash outflow	-	(90,661,388)	-	(90,661,388)	-	-

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 period, there is no change in the Group's exposure to market risk or exposure risk management and assessment when compared to prior period.

b.3.1) Foreign currency risk management

Transactions denominated in foreign currencies result in foreign currency risk.

Klimasan is exposed to 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.

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

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

29. 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 2018			
	TL Equivalent (Functional Currency)	**US Dollar**	**Euro**	**GBP**
1. Trade Receivables	98,833,600	6,651,984	10,590,275	-
2a. Monetary Financial Assets	415,592,718	51,636,551	23,788,876	80,965
2b. Non-monetary Financial Assets	284,491	52,100	1,725	-
3. Other	-	-	-	-
4. CURRENT ASSETS	514,710,809	58,340,635	34,380,876	80,965
5. Trade Receivables	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-
6b. Non-monetary Financial Assets	-	-	-	-
7. Other	-	-	-	-
8. NON-CURRENT ASSETS	-	-	-	-
9. TOTAL ASSETS	**514,710,809**	**58,340,635**	**34,380,876**	**80,965**
10. Trade Payables	97,855,117	8,924,998	8,444,193	-
11. Financial Liabilities	184,412,368	-	30,592,629	-
12a. Monetary Other Liabilities	-	-	-	-
12b. Non-monetary Other Liabilities	604,120	-	100,219	-
13. SHORT-TERM LIABILITIES	282,871,605	8,924,998	39,137,041	-
14. Trade Payables	-	-	-	-
15. Financial Liabilities	284,078,596	-	47,126,509	-
16a. Monetary Other Liabilities	-	-	-	-
16b. Non-monetary Other Liabilies	-	-	-	-
17. LONG-TERM LIABILITES	284,078,596	-	47,126,509	-
18. TOTAL LIABILITIES	**566,950,201**	**8,924,998**	**86,263,550**	**-**
19. Off-balance sheet derivative instruments net asset / liability position (19a-19b)	(4,058,784)	(771,500)	-	-
19a. Off-balance sheet foreign currency derivative assets	176,025,861	16,845,000 -	14,500,000 -	- -
19b. Off-balance sheet foreign currency derivative liabilities	180,084,645	17,616,500	14,500,000	-
20. Net foreign currency assets / liabilities position (9-18+19)	**(56,298,176)**	**48,644,137**	**(51,882,674)**	**80,965**
21. Monetary items net foreign currency assets / liabilities (1+2a+5+6a-10-11-12a-14-15-16a)	(51,919,763)	49,363,537	(51,784,180)	80,965

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

29. 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**
1. Trade Receivables	40,996,579	2,966,296	6,601,264	-
2a. Monetary Financial Assets	212,625,355	25,021,550	26,115,194	63,660
2b. Non-monetary Financial Assets	32,658,717	5,067,000	3,000,000	-
3. Other	-	-	-	-
4. CURRENT ASSETS	286,280,651	33,054,846	35,716,458	63,660
5. Trade Receivables	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-
6b. Non-monetary Financial Assets	-	-	-	-
7. Other	-	-	-	-
8. NON-CURRENT ASSETS	-	-	-	-
9. TOTAL ASSETS	**286,280,651**	**33,054,846**	**35,716,458**	**63,660**
10. Trade Payables	78,956,907	7,419,252	11,271,635	14,795
11. Financial Liabilities	37,733,001	10,003,712	-	-
12a. Monetary Other Liabilities	-	-	-	-
12b. Other	-	-	-	-
13. SHORT-TERM LIABILITIES	116,689,908	17,422,964	11,271,635	14,795
14. Trade Payables	-	-	-	-
15. Financial Liabilities	305,558,749	-	67,668,863	-
16a. Monetary Other Liabilities	-	-	-	-
16b. Non-monetary Other Liabilies	-	-	-	-
17. LONG-TERM LIABILITES	305,558,749	-	67,668,863	-
18. TOTAL LIABILITIES	**422,248,657**	**17,422,964**	**78,940,498**	**14,795**
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 liabilities	90,661,388	24,036,000	-	-
20. Net foreign currency assets / liabilities position (9-18+19)	**(136,319,394)**	**(8,404,118)**	**(23,224,040)**	**48,865**
21. Parasal kalemler net yabancı para varlık / yükümlülük pozisyonu (1+2a+5+6a-10-11-12a-14-15-16a)	(168,626,723)	10,564,882	(46,224,040)	48,865

29. 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 20% increase and decrease in US Dollar, Euro and GBP against TL. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 20% change in foreign currency rates. The analysis further involves external loan and loans used for Group's foreign activities denominated in foreign currencies other than the functional currency of the creditor and borrower. A positive number below indicates an increase in profit or equity.

	31 December 2018	
	Profit / Loss	
	20% strengthening of foreign currency	20% weakening of foreign currency
1- US Dollar net asset / liability	51,182,388	(51,182,388)
2- Portion from US Dollar hedged (-)	-	-
3- Net effect of US Dollar (1+2)	51,182,388	(51,182,388)
4- Euro net asset / liabilitiy	(62,549,752)	62,549,752
5- Portion from Euro hedged (-)	-	-
6- Net effect of Euro (4+5)	(62,549,752)	62,549,752
7- GBP net asset / liabilitiy	107,729	(107,729)
8- Portion from GBP hedged (-)	-	-
9- Net effect of GBP (7+8)	107,729	(107,729)
TOTAL (3 + 6 + 9)	**(11,259,635)**	**11,259,635**

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

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

b) Financial Risk Factors (cont'd)

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

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

Foreign currency sensitivity analysis (cont'd)

	31 December 2017	
	Profit / Loss	
	20% strengthening of foreign currency	20% weakening of foreign currency
1- US Dollar net asset / liability	(6,339,899)	6,339,899
2- Portion from US Dollar hedged (-)	-	-
3- Net effect of US Dollar (1+2)	(6,339,899)	6,339,899
4- Euro net asset / liabilitiy	(20,973,630)	20,973,630
5- Portion from Euro hedged (-)	-	-
6- Net effect of Euro (4+5)	(20,973,630)	20,973,630
7- GBP net asset / liabilitiy	49,650	(49,650)
8- Portion from GBP hedged (-)	-	-
9- Net effect of GBP (7+8)	49,650	(49,650)
TOTAL (3 + 6 + 9)	**(27,263,879)**	**27,263,879**

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

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

b) Financial Risk Factors (cont'd)

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

b.3.2) Interest rate risk management

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

Interest rate sensitivity analysis

Interest Position Table

		31 December 2018	31 December 201
	Instruments with Fixed Interest		
Financial Assets	Time deposits with maturities less than three months	19,011,718	140,356,982
	Assets at fair value through profit or loss	324,713,372	151,146,340
Financial Liabilities		253,077,640	169,249,247
	Instruments with Variable Interest		
Financial Liabilities		215,413,325	174,042,504

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 period ended 31 December 2018 would decrease by TL 6,733,633 (31 December 2017: TL 5,642,306).

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

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

31 December 2018	Financial assets at amortized cost	Financial assets at FVTPL	Financial liabilities at amortized cost	Carrying value	Note
Financial assets					
Cash and cash equivalents	113,874,141	-	-	113,874,141	32
Financial investments	-	324,713,372	-	324,713,372	28
Trade receivables	157,104,209	-	-	157,104,209	5
Trade receivables from related parties	5,899,859	-	-	5,899,859	4,5
Other receivables from related parties	324,251	-	-	324,251	4,6
Other receivables	2,287,069	-	-	2,287,069	6
Financial derivative instruments	-	6,968,457	-	6,968,457	27
Financial liabilities					
Financial borrowings	-	-	468,490,965	468,490,965	28
Trade payables	-	-	163,524,325	163,524,325	5
Trade payables to related parties	-	-	1,323,792	1,323,792	4,5
Other payables and liabilities (*)	-	-	3,371,622	3,371,622	6,15,17
Financial derivative instruments	-	5,847,561	-	5,847,561	27

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

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

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

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

31 December 2017	Financial assets at amortized cost	Financial assets at FVTPL	Financial liabilities at amortized cost	Carrying value	Note
Financial assets					
Cash and cash equivalents	151,771,957	-	-	151,771,957	32
Financial investments	-	151,146,340	-	151,146,340	28
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
Financial derivative instruments	-	1,089,555	-	1,089,555	27
Financial liabilities					
Financial borrowings	-	-	343,291,751	343,291,751	28
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 include "Other liabilities to third parties", "Due to personnel" and "Other short-term liabilities".

30. 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 2018	**31 December 2017**	
Financial investments	324,713,372	151,146,340	1
Foreign currency forward contracts	1,120,896	1,089,555	2

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

30. 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 maturities according to the current market conditions and the changes in the market price of the securities are reflected in the financial statements periodically. Accordingly, 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 Eurobond issuer declares bankruptcy or postpones amortization or the coupon payments.

The following table shows the Group's sensitivity to the market price 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 2018	25,690,691	(25,690,691)
31 December 2017	14,990,430	(14,990,430)

31. EVENTS AFTER THE REPORTING PERIOD

None.

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

32. DISCLOSURES RELATED TO STATEMENT OF CASH FLOWS

As of 31 December 2018 and 2017, cash and cash equivalents are as following:

	31 December 2018	31 December 2017
Cash on hand	46,875	47,300
Cash at banks	113,775,768	151,611,933
Time deposit with maturities less than three months	*19,011,718*	*140,356,982*
Demand deposits	*94,764,050*	*11,254,951*
Other cash and cash equivalents	51,498	112,724
	113,874,141	151,771,957
Interest accrual related to time deposits	(11,718)	(432,357)
Cash and cash equivalents in the cash flows	113,862,423	151,339,600

As of 31 December 2018 and 2017, detail of time deposits are as follows:

Currency	Interest Rate (%)	Maturity	31 December 2018
TL	22- 24	January 2019	19,011,718
			19,011,718

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
			140,356,982