

**(CONVENIENCE TRANSLATION OF THE REPORT AND  
THE FINANCIAL STATEMENTS  
ORIGINALLY ISSUED IN TURKISH)**

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

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S LIMITED  
REVIEW REPORT FOR THE PERIOD  
ENDED 1 JANUARY - 30 JUNE 2018**

**(CONVENIENCE TRANSLATION OF CONSOLIDATED  
INTERIM FINANCIAL STATEMENTS  
ORIGINALLY ISSUED IN TURKISH)**

**REPORT ON REVIEW OF CONSOLIDATED INTERIM  
FINANCIAL INFORMATION**

**To the General Assembly of Klimasan Klima Sanayi ve Ticaret A.Ş.**

*Introduction*

We have reviewed the accompanying consolidated financial statements of Klimasan Klima Sanayi ve Ticaret A.Ş. (“the Company”) and its subsidiaries (all together will be referred as “the Group”) as of 30 June 2018 which comprise the consolidated statement of financial position and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the six-month-period then ended and a summary of significant accounting policies and explanatory notes. The Group management is responsible for the preparation and fair presentation of the interim consolidated financial information in accordance with the Turkish Accounting Standards (“TAS”). Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

*Scope of Review*

We conducted our review in accordance with Independent Auditing Standard on Review Engagements (ISRE) 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial reporting process, and applying analytical and other review procedures. A review of interim financial information is substantially less in scope than an independent audit performed in accordance with the Independent Auditing Standards and the objective of which is to express an opinion on the consolidated financial statements. Consequently, a review on the interim financial information does not provide assurance that the audit firm will be aware of all significant matters which would have been identified in an audit. Accordingly, we do not express an audit opinion.

## *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information does not present fairly, in all material respects, the financial position of Klimasan Klima Sanayi ve Ticaret A.Ş. and its subsidiaries as of 30 June 2018, and of their financial performance and their cash flows for the six-month period then ended in accordance with Turkish Accounting Standards.

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



Gülin GÜNCE, SMMM  
Partner

İzmir, 13 August 2018

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**KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES****CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018**

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

<b>ASSETS</b>	<b>Notes</b>	<b>Reviewed Current period 30 June 2018</b>	<b>Audited Prior period 31 December 2017</b>
<b>Current Assets</b>		<b>655.995.386</b>	<b>554.131.425</b>
Cash and Cash Equivalents	31	126.586.962	151.771.957
Financial Investments	27	99.297.947	151.146.340
Trade Receivables		298.288.315	75.661.496
<i>Trade Receivables from Related Parties</i>	4,5	4.249.789	6.803.511
<i>Trade Receivables from Third Parties</i>	5	294.038.526	68.857.985
Other Receivables		2.954.409	35.532.945
<i>Other Receivables from Related Parties</i>	4,6	617.178	33.467.284
<i>Other Receivables from Third Parties</i>	6	2.337.231	2.065.661
Inventories	7	111.366.858	103.455.333
Derivative Financial Instruments	26	-	1.089.555
Prepaid Expenses	8	12.100.315	14.964.740
Other Current Assets	17	5.400.580	20.509.059
<b>Non-Current Assets</b>		<b>121.067.593</b>	<b>90.945.545</b>
Other Receivables		12.564	12.564
<i>Other Receivables from Third Parties</i>	6	12.564	12.564
Property, Plant and Equipment	9	91.748.289	66.725.175
Intangible Assets		20.506.088	18.270.050
<i>Goodwill</i>	3,11	383.655	383.655
<i>Other Intangible Assets</i>	10	20.122.433	17.886.395
Prepaid Expenses	8	348.688	481.838
Deferred Tax Assets	24	8.451.964	5.455.918
<b>TOTAL ASSETS</b>		<b>777.062.979</b>	<b>645.076.970</b>

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

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018**

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

<b>LIABILITIES</b>	<b>Notes</b>	<b>Reviewed Current Period 30 June 2018</b>	<b>Audited Prior Period 31 December 2017</b>
<b>Current Liabilities</b>		<b>290.758.050</b>	<b>227.887.332</b>
Short-Term Borrowings	27	10.626.582	-
Short-Term Portion of Long-Term Borrowings	27	89.889.269	78.678.177
Trade Payables		161.498.459	135.520.915
<i>Trade Payables to Related Parties</i>	4,5	1.064.775	158.768
<i>Trade Payables to Third Parties</i>	5	160.433.684	135.362.147
Payables Related to Employee Benefits	15	4.185.421	3.367.421
Other Payables		994.312	338.097
<i>Other Payables to Third Parties</i>	6	994.312	338.097
Deferred Income	8	5.050.885	2.181.554
Derivative Financial Instruments	26	2.297.975	-
Short-Term Provisions		10.850.359	6.517.654
<i>Short-Term Provisions for Employee Benefits</i>	15	3.375.850	2.249.348
<i>Other Short-Term Provisions</i>	13	7.474.509	4.268.306
Other Current Liabilities	17	5.364.788	1.283.514
<b>Non-Current Liabilities</b>		<b>334.515.224</b>	<b>270.460.969</b>
Long-Term Borrowings	27	327.505.699	264.613.574
Other Payables		23.845	28.845
<i>Other Payables to Third Parties</i>	6	23.845	28.845
Long-Term Provisions		6.985.680	5.818.550
<i>Long-Term Provisions for Employee Benefits</i>	15	6.985.680	5.818.550
<b>EQUITY</b>		<b>151.789.705</b>	<b>146.728.669</b>
<b>Attributable to the Parent</b>		<b>151.792.752</b>	<b>146.708.267</b>
Share Capital	18	33.000.000	33.000.000
Adjustments to Share Capital	18	980.882	980.882
Restricted Reserves Appropriated From Profit	18	5.666.104	5.666.104
Other Comprehensive Income or Expenses that may be Reclassified Subsequently to Profit or Loss		4.118.976	842.853
<i>Currency Translation Differences</i>		4.118.976	842.853
Other Comprehensive Income or Expenses that will not be Reclassified Subsequently to Profit or Loss		(2.976.601)	(2.920.778)
<i>Loss on Remeasurement of     Defined Benefit Plans</i>		(2.976.601)	(2.920.778)
Retained Earnings		107.095.139	94.442.449
Net Profit for the Period		3.908.252	14.696.757
<b>Non-Controlling Interests</b>		<b>(3.047)</b>	<b>20.402</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>777.062.979</b>	<b>645.076.970</b>

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

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

1 JANUARY – 30 JUNE 2018

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

	Notes	Reviewed Current Period 1 January 2018- 30 June 2018	Reviewed Prior Period 1 January 2017- 30 June 2017	Not Reviewed Prior Period 1 April 2018- 30 June 2018	Not Reviewed Prior Period 1 April 2017- 30 June 2017
Revenue	19	403.089.774	243.821.679	219.474.573	162.665.776
Cost of Sales (-)	19	(317.615.011)	(197.892.415)	(170.394.649)	(133.341.644)
<b>GROSS PROFIT</b>		<b>85.474.763</b>	<b>45.929.264</b>	<b>49.079.924</b>	<b>29.324.132</b>
Administrative Expenses (-)	20	(9.931.196)	(6.339.006)	(4.997.605)	(3.079.021)
Marketing Expenses (-)	20	(25.196.607)	(15.740.416)	(13.215.440)	(8.882.064)
Research and Development Expenses (-)	20	(2.541.219)	(2.233.227)	(1.330.501)	(1.091.207)
Other Income from Operating Activities	21	7.282.296	4.293.564	5.427.903	1.566.298
Other Expenses from Operating Activities (-)	21	(6.207.457)	(1.821.946)	(2.050.905)	(1.730.452)
<b>OPERATING PROFIT</b>		<b>48.880.580</b>	<b>24.088.233</b>	<b>32.913.376</b>	<b>16.107.686</b>
Income from Investing Activities	22	37.502.616	41.684.396	19.208.460	2.714.747
Expenses from Investing Activities (-)	22	(22.311.499)	(36.163.945)	(11.113.925)	(23.988.823)
<b>OPERATING PROFIT BEFORE FINANCE EXPENSE</b>		<b>64.071.697</b>	<b>29.608.684</b>	<b>41.007.911</b>	<b>(5.166.390)</b>
Finance Income and Expenses, (net)	23	(63.168.984)	(26.679.587)	(38.659.926)	(10.275.441)
<b>PROFIT BEFORE TAX</b>		<b>902.713</b>	<b>2.929.097</b>	<b>2.347.985</b>	<b>(15.441.831)</b>
<b>Tax Income</b>		<b>2.982.090</b>	<b>1.671.985</b>	<b>1.925.493</b>	<b>4.278.704</b>
- Current Tax Income (Expense)	24	-	(112.120)	1.113.450	(22.760)
- Deferred Tax Income	24	2.982.090	1.784.105	812.043	4.301.464
<b>PROFIT / (LOSS) FOR THE PERIOD</b>		<b>3.884.803</b>	<b>4.601.082</b>	<b>4.273.478</b>	<b>(11.163.127)</b>
<b>Profit / Loss for the Period Attributable to:</b>					
Non-controlling Interests		(23.449)	-	(48.435)	-
Owners of the Company		3.908.252	4.601.082	4.321.913	(11.163.127)
		<b>3.884.803</b>	<b>4.601.082</b>	<b>4.273.478</b>	<b>(11.163.127)</b>
<b>Earning / (Loss) per Share</b>	25	<b>0,1177</b>	<b>0,1394</b>	<b>0,1295</b>	<b>(0,3383)</b>
<b>OTHER COMPREHENSIVE INCOME</b>		<b>3.220.300</b>	<b>241.881</b>	<b>3.188.178</b>	<b>110.955</b>
<b>Items that will not be Reclassified Subsequently to Profit or Loss</b>		<b>(55.823)</b>	<b>(23.600)</b>	<b>69.452</b>	<b>51.630</b>
(Losses) / Gains on Remeasurement of Defined Benefit Plans		(69.779)	(29.500)	86.815	64.537
Deferred Tax Income / (Expense) Related to Other Comprehensive Income	24	13.956	5.900	(17.363)	(12.907)
<b>Items that will be Reclassified Subsequently to Profit or Loss</b>		<b>3.276.123</b>	<b>265.481</b>	<b>3.118.726</b>	<b>59.325</b>
Currency Translation Reserves		3.276.123	265.481	3.118.726	59.325
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>7.105.103</b>	<b>4.842.963</b>	<b>7.461.656</b>	<b>(11.052.172)</b>

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

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 1 JANUARY – 30 JUNE 2018**

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

	Share Capital	Adjustments to Share Capital	Accumulated Other Comprehensive Income or Expenses that will not be Reclassified Subsequently to Profit or Loss	Accumulated Other Comprehensive Income and Expenses that will be Reclassified Subsequently to Profit or Loss	Currency Translation Reserves	Restricted Reserves Appropriated from Profit	Retained Earnings		Equity Attributable to the Owners of the Company	Non-controlling Interests	Total Equity
							Prior Year's Profit	Net Profit for the Period			
<b>Balances as of 1 January 2017</b>	33.000.000	980.882	(2.977.566)	228.305	4.184.074	55.915.527	40.008.952	40.008.952	131.340.174	-	131.340.174
Transfers	-	-	-	-	-	40.008.952	(40.008.952)	-	-	-	-
Transfers to the Legal Reserves	-	-	-	-	-	(1.482.030)	-	-	-	-	-
Total Comprehensive Income	-	-	(23.600)	265.481	-	-	-	4.601.082	4.601.082	-	4.601.082
<b>Balances as of 30 June 2017</b>	33.000.000	980.882	(3.001.166)	493.786	5.666.104	94.442.449	4.601.082	4.601.082	136.183.137	-	136.183.137
<b>Balances as of 1 January 2018</b>	33.000.000	980.882	(2.920.778)	842.853	5.666.104	94.442.449	14.696.757	14.696.757	146.708.267	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)	-	(2.044.067)
Total Comprehensive Income	-	-	(55.823)	3.276.123	-	-	-	3.908.252	3.908.252	(23.449)	7.105.103
<b>Balances as of 30 June 2018</b>	33.000.000	980.882	(2.976.601)	4.118.976	5.666.104	107.095.139	3.908.252	3.908.252	151.792.752	(3.047)	151.789.705

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



# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD 1 JANUARY – 30 JUNE 2018

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

	Notes	Reviewed Current Period 1 January- 30 June 2018	Reviewed Prior Period 1 January- 30 June 2017
<b>A. Cash Flows From Operating Activities</b>			
Profit for the Period		3.884.803	4.601.082
<b>Adjustments to Reconcile Profit for the Period</b>			
Adjustments Related to Depreciation and Amortization Expenses	9,10	8.272.486	5.370.265
Adjustment Related to Impairment (Reversal)			
<i>Adjustment Related to Impairment (Reversal) for Inventories</i>	7	1.516.203	(521.340)
<i>Adjustment Related to Impairment for Receivables</i>	5	348.552	-
Adjustment Related to Provisions			
<i>Adjustment Related to Provision for</i>			
<i>Employee Benefits</i>	15	4.514.746	1.972.836
<i>Adjustments Related to Legal Claims</i>	13	564.968	24.502
<i>Adjustment Related to Warranty Provision</i>	13	1.624.201	371.547
<i>Adjustment Related to Other Provisions</i>		247.660	(29.580)
Adjustment Related to Interest Income and Expenses			
<i>Adjustment Related to Interest Income</i>	22,23	(6.347.949)	(10.444.360)
<i>Adjustment Related to Interest Expenses</i>	23	10.496.702	5.952.279
<i>Deferred Financial Expense from Terms of Purchases</i>	5,21	(511.396)	2.313.704
<i>Unearned Financial Income from Terms of Sales</i>	5,21	5.010.661	(586.343)
Adjustment Related to Unrealized Foreign Currency Exchange Differences		58.694.383	21.821.130
Adjustments Related to Fair Value Losses / (Gains)			
<i>Adjustment Related to Fair Value of</i>			
<i>Financial Assets Loss</i>	22	7.188.092	11.459.500
<i>Adjustment Related to Fair Value of</i>			
<i>Derivative Instrument Loss / (Gain)</i>		3.387.530	(804.482)
Adjustment Related to Tax Income	24	(2.982.090)	(1.671.985)
Adjustment Related to Gain on			
Disposal of Non-current Assets			
<i>Adjustment Related to Gain on Disposal of Property, Plant and</i>			
<i>Equipment and Intangible Assets</i>	21	(25.860)	(87.332)
		91.998.889	35.140.341
<b>Changes in Working Capital</b>			
Adjustment Related to Decrease / (Increase) in Inventories	3,7	4.006.067	(14.569.343)
Adjustment Related to Increase in Trade Receivables	3,5	(222.466.558)	(88.084.551)
Adjustment Related to Decrease in Other Receivables from Operations	3,6,17	48.505.450	9.518.806
Adjustment Related to Increase in Trade Payables	3,5	20.159.381	34.938.671
Adjustment Related to Decrease in Prepaid Expenses	3,8	3.967.407	3.850.542
Adjustment Related to Decrease in Deferred Income	3,8	2.410.912	2.125.796
Adjustment Related to (Decrease) / Increase in Other Payables for Operations	6,15,17	(4.450.893)	379.844
		(147.868.234)	(51.840.235)
<b>Cash Generated from Operations</b>			
Payments for Employee Termination Benefits	15	(2.852.204)	(2.263.429)
Payments for Other Provisions	13	(379.183)	(17.100)
Tax Returns		-	2.918.729
		(55.215.929)	(11.460.612)

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

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

**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD  
1 JANUARY – 30 JUNE 2018**

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

	Notes	Reviewed Current Period 1 January- 30 June 2018	Reviewed Prior Period 1 January- 30 June 2017
<b>B. Cash Flows From Investing Activities</b>			
Payments for Acquisition of Subsidiary which Control is Obtained	3	(24.235.147)	-
Proceeds on Sale of Property, Plant and Equipment and Intangible Assets <i>Proceeds on Sale of Property, Plant and Equipment and Intangible Assets</i>	9.21	67.206	168.425
Payments for Acquisition of Property, Plant and Equipment and Intangible Assets <i>Payments for Acquisition of Property, Plant and Equipment Payments for Acquisition of Intangible Assets</i>	9 10	(8.246.205) (5.063.725)	(9.213.921) (3.547.796)
Cash Outflow for Acquisition of Shares in Other Entities or Shares in Funds or Debt Instruments	22.27	44.660.301	65.388.299
Interest Received		6.048.887	9.765.445
		<u>13.231.317</u>	<u>62.560.452</u>
<b>C. Cash Flows From Financing Activities</b>			
Proceeds From Borrowings <i>Cash Inflow From Borrowings</i>		91.194.157	40.565.158
Cash Outflow of Borrowings <i>Cash Outflows on Repayment of Borrowings</i>		(77.762.893)	(41.492.866)
Cash Inflow from Derivative Instruments		-	310.613
Interest Paid		5.868.473	(4.953.909)
Interest Received	23	699.655	678.915
		<u>8.262.446</u>	<u>(4.892.089)</u>
<b>Net (Decrease)/Increase in Cash and Cash Equivalents Before the Effect of Foreign Exchange Rate Changes (A+B+C)</b>		<u>(33.722.166)</u>	<u>46.207.751</u>
<b>D. Effects of Foreign Exchange Rate Changes on Cash and Cash Equivalents</b>		8.937.764	1.094.761
<b>NET INCREASE / (DECREASE) ON CASH AND CASH EQUIVALENTS (A+B+C+D)</b>		24.784.402	47.302.512
<b>E. Cash and Cash Equivalents at the Beginning of the Period</b>	31	<u>151.339.600</u>	<u>71.070.817</u>
<b>Cash and Cash Equivalents at the End of the Period (A+B+C+D+E)</b>	31	<u>126.555.198</u>	<u>118.373.329</u>

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

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

### 1. ORGANIZATION AND OPERATIONS OF THE GROUP

Klimasan Klima Sanayi ve Ticaret A.Ş. (the “Company”) and its 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 at 30 June 2018, 39% portion of its shares is listed in ISE.

As of 30 June 2018, the average personnel number of the Group for the six months period is 1.757 (Average personnel number for the six months period in 2017:1.453).

#### 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.

#### Approval of financial statements

Board of Directors has approved the consolidated financial statements and delegated authority for publishing it on 13 August 2018. General Assembly has the authority to modify the consolidated financial statements.

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

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

#### 2.1 Basis of Preparation

##### Statement of Compliance

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

The financial statements and disclosures have been prepared in accordance with the resolution of 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 current period, the Group has not made any reclassifications to the previous period financial statements.

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

(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 30 June 2018 and 31 December 2017 are as follows:

Subsidiaries	Place of Incorporation and Operation	Functional Currency	Group's share in capital and voting rights (%)	
			30 June 2018	31 December 2017
Metalfrío Solutions Poland SP. Z.o.o.	Poland	Euro	100%	100%
Metalfrío West Africa Ltd.	Nigeria	Nigerian Naira	97%	97%
Sabcool Ltd.	Nigeria	Nigerian Naira	87,3%	87,3%
OOO Metalfrío 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.

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

### 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 TAS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under TAS 39 *Financial Instruments: Recognition and Measurement*, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

##### Combinations of entities or businesses under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are excluded from the scope of TFRS 3 “Business Combinations” (“TFRS 3”). In business combinations under common control, assets and liabilities subject to business combination are accounted for at their carrying value in consolidated financial statements in accordance with the bulletin issued by the POA on 21 July 2013. Statements of profit or loss are consolidated starting from the 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 acquisition for LLC Metalrio Solutions and LLC Estate of which registered offices are located in Kaliningrad, Russia on 7 February 2018. The Company acquired shares from the group company, Metalrio 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.

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

### 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

##### a) Amendments to TFRSs that are mandatorily effective for 2018

TFRS 9	<i>Financial Instruments</i>
TFRS 15	<i>Revenue from Contracts with Customers</i>
TFRS Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>

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

TFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets / liabilities and for derecognition and for general hedge accounting and it supersedes TAS 29 Financial Instruments: Recognition and Measurement.

Key requirements of TFRS 9:

- All recognized financial assets that are within the scope of TFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under TFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

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

#### 2.4 New and Revised Turkish Accounting Standards (cont’d)

##### a) Amendments to TFRSs that are mandatorily effective for 2018 (cont’d)

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

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, TFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under TAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, TFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under TAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in TAS 39. Under TFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The Group has evaluated the effects of TFRS 9 and there is no significant effect on the consolidated financial statements.

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

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



# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

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

#### 2.4 New and Revised Turkish Accounting Standards (cont’d)

##### a) Amendments to TFRSs that are mandatorily effective for the 2018 (cont’d)

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

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

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

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

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

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

The Group has evaluated the effects of TFRS 15 and there is no significant effect on the consolidated financial statements.

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

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

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

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

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

#### 2.4 New and Revised Turkish Accounting Standards (cont’d)

##### a) Amendments to TFRSs that are mandatorily effective for the 2018 (cont’d)

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

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.

IFRS Interpretation 22 has no impact on the Group’s consolidated financial statements.

##### b) New and revised IFRSs in issue but not yet effective

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

IFRS 16	<i>Leases<sup>1</sup></i>
IFRS Interpretation 23	<i>Uncertainty over Income Tax Treatments<sup>1</sup></i>

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

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

IFRS 16 specifies how a TAS reporter will recognise, measure, present and disclose leases and supersedes TAS 17 “Leases”. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, TAS 17.

#### **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.

The Company evaluates the effects of these standards, amendments and improvements on the Group’s consolidated financial position and performance.

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

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

#### 2.5 Summary of Significant Accounting Policies

##### Related Parties

A related party is a person or entity that is related to the entity that is preparing its financial statements.

- 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.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

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

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

##### Revenue (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

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.

##### **Inventories**

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

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

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

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

##### **Property, Plant and Equipment**

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

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

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

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

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

##### **Intangible Assets**

###### *Intangible assets acquired separately*

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

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

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

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

##### Property, Plant and Equipment (cont'd)

###### Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognized 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.

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

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

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

##### Property, Plant and Equipment (cont’d)

###### Derecognition of intangible assets

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

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

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

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

##### Impairment of Tangible and Intangible Assets

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

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

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

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

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

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

##### **Borrowing Costs**

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

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

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

##### **Financial Instruments**

###### Financial assets

###### *Classification and Measurement*

Group classifies its financial assets in two categories of financial assets measured at amortised cost and financial assets measured at fair value through profit or loss. The classification of financial assets is determined considering the Entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

“Financial assets measured at amortised cost”, are non-derivative assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Group’s financial assets measured at amortised cost comprise “cash and cash equivalents”, “trade receivables” and “other receivables”. These financial assets are measured at their fair value at initial recognition and by effective interest rate method at subsequent measurements deducting from discounted costs. Gains and losses on valuation of non-derivative financial assets measured at amortised cost are recognized in profit or loss.



# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

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

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

##### Financial Instruments

##### Financial assets (cont’d)

##### *Classification and Measurement (cont’d)*

“Financial assets measured at fair value through profit or loss”, are non-derivative assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and dispose of financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Gains and losses on valuation of non-derivative financial assets measured at fair value through profit or loss are recognized in profit or loss.

Changes regarding the classification of financial assets and liabilities in terms of TFRS 9 are summarised below. Related changes in classification do not result any changes in measurement of the financial assets and liabilities.

<u>Financial Assets</u>	<u>Classifications according to TAS 39</u>	<u>Reclassifications according ro TFRS 9</u>
Cash and cash equivalents	Loans and receivables	Amortized cost
Trade receivables	Loans and receivables	Amortized cost
Other financial assets	Loans and receivables	Amortized cost
Derivative financial instruments	Financial Instruments at FVTPL	Financial Instruments at FVTPL
Financial investments	Assets held for sale	Assets at FVTPL

  

<u>Financial Liabilities</u>	<u>Classifications according to TAS 39</u>	<u>Reclassifications according ro TFRS 9</u>
Derivative financial liabilities	Financial Instruments at FVTPL	Financial Instruments at FVTPL
Borrowings	Amortized cost	Amortized cost
Other liabilities	Amortized cost	Amortized cost
Trade payables	Amortized cost	Amortized cost

##### *Impairment*

“Expected credit loss model” defined in TFRS 9 “Financial Instruments” superseded the “incurred credit loss model” in TAS 39 “Financial Instruments: Recognition and Measurement” which was effective prior to 1 January 2018. Expected credit losses are a probability weighted estimate of credit losses over the expected life of the financial instrument. The calculation of expected credit loss is performed based on the past experiences and future expectations of the Group.

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

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

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

##### Financial Instruments (cont’d)

###### Financial assets (cont’d)

###### *Trade receivables*

Group has preferred to apply “simplified approach” defined in TFRS 9 for the recognition of impairment losses on trade receivables, carried at amortised cost and that do not comprise of any significant finance component (those with maturity less than one year). In accordance with the simplified approach, Group measures the impairment allowance regarding its trade receivables at an amount equal to “lifetime expected credit losses” except incurred credit losses in which trade receivables are already impaired for a specific reason.

Group uses a provision matrix for the calculation of the expected credit losses on trade receivables. The provision matrix calculates fixed provision rates depending on the number of days that a trade receivable is past due and those provision rates are reviewed and, revised if necessary, in every reporting period. The changes in the expected credit losses on trade receivables are accounted for under “other income/expense from operating activities” account of the statement of profit or loss. There is no significant effect of changes in the expected credit losses on Group’s consolidated financial statements within the current period.

###### 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.

##### **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 as an expense 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.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

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

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

##### Business Combinations (cont'd)

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

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

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. The fair values of other contingent consideration is remeasured and the corresponding gain or loss is recognized in profit or loss.

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

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

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

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

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

##### **Goodwill**

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

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

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

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal. The Group's policy for goodwill arising on the acquisition of an associate is described under Note 3.

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

##### Foreign Currency Balances and Transactions

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). Metalfrio Solutions Poland SP. Z.o.o. uses Euro as its functional currency, Metalfrio West Africa Ltd. and Sabcool Ltd. use Nigerian Naira (NGN) as their functional currency. OOO Estate and OOO Metalfrio Russia use Ruble as their functional currency. The results and financial position of each entity are expressed in TL, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

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

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

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

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

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

##### Effect of Exchange Differences: (cont’d)

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

- Exchange differences 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 Other Countries

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

##### **Earnings Per Share**

Earnings per share disclosed in the consolidated statement of profit or loss 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.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

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

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

##### **Government Grants and Incentives**

Government incentives are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government incentives are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the incentives are intended to compensate. Government incentives which are a financing instruments should be recognized as deferred revenue in the consolidated statement of financial position (balance sheet) and transferred to profit or loss on a systematic and rational basis over the useful lives of the related asset.

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

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

##### **Provisions, Contingent Assets and Liabilities**

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

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

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

##### Warranties

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognized at the date of sale of the relevant products, at management's best estimate of the expenditure required to settle the Group's obligation.

##### **Income Taxes**

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.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

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

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

##### Income Taxes (cont’d)

###### 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 period.

###### Deferred tax

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

###### Current and deferred tax for the period

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

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

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

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

##### **Employee Benefits**

###### *Termination and Retirement benefits:*

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

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

##### **Statement of Cash Flows**

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

##### **Share Capital and Dividends**

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

#### 2.6 Critical Accounting Judgments and Key Sources of Estimation Uncertainty

##### Critical judgments in applying the group’s accounting policies

In the process of applying the group’s accounting policies, which are described in Note 2.5, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements (apart from those involving estimations, which are dealt with below):

##### Useful lives of property, plant and equipment and scrap value

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

##### Warranty provision

Amounts recorded as provision are calculated according to the estimates about the expenses to be incurred considering risks and uncertainties about the liability.

In this context, the Group reserves provisions for repair and maintenance expenses for the goods produced and sold, authorized service labor and part costs in the scope of warranty without payments by the customer, first maintenance costs undertaken by the Group in the light of estimates from prior data.



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

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

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

Critical judgments in applying the entity’s accounting policies (cont’d)

##### Provision for doubtful trade receivables

Provision for trade receivables and other receivables is determined based on management’s discretion according to volume of trade receivable, past experience, and general economic conditions. As of 30 June 2018, the Group’s doubtful trade receivables provision is TL 16.287.376 in the statement of financial position (31 December 2017: TL 13.478.602).

##### 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.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

(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.

	<u>Principal activity</u>	<u>Date of acquisition</u>	<u>Proportion of interest acquired (%)</u>	<u>Consideration transferred (Euro)</u>	<u>Consideration transferred (TL)</u>
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
				<u>5.705.719</u>	<u>26.727.300</u>

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.

#### Consideration transferred:

	<u>OOO Metalfrio Solutions</u>	<u>OOO Estate</u>	<u>Total (TL)</u>
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 (*)	<u>5.115.035</u>	<u>(3.070.968)</u>	<u>2.044.067</u>

(\*)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.

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

(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 Metalfrion Solutions	OOO Estate
<b>Current Assets</b>	<b>20.078.535</b>	<b>3.155.154</b>
Cash and Cash Equivalents	1.980.484	511.669
Trade Receivables	3.439.324	2.080.150
<i>Trade Receivables from Related Parties</i>	33.720	2.080.150
<i>Trade Receivables from Third Parties</i>	3.405.604	-
Inventories	13.254.846	178.949
Prepaid Expenses	710.118	259.714
Other Current Assets	693.763	124.672
	<b>423.852</b>	<b>19.372.916</b>
<b>Non-current Assets</b>	<b>423.852</b>	<b>19.372.916</b>
Property, Plant and Equipment	423.852	19.372.916
<b>Short-term Liabilities</b>	<b>9.206.518</b>	<b>227.802</b>
Trade Payables	6.195.482	134.077
<i>Trade Payables to Related Parties</i>	3.308.151	17.952
<i>Trade Payables to Third Parties</i>	2.887.331	116.125
Other Payables	223.919	-
Deferred Income	458.419	-
Short-term Provisions	1.544.097	13.767
<i>Short-term Provisions for</i>		
<i>Employment Termination Benefits</i>	501.079	-
<i>Other Short-term Provisions</i>	1.043.018	13.767
Other Short-term Liabilities	784.601	79.958
<b>Long-term Liabilities</b>	<b>8.912.904</b>	<b>-</b>
Other payables	8.912.904	-
<i>Other Payables from Related Parties</i>	8.912.904	-
	<b>2.382.965</b>	<b>22.300.268</b>

#### 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 acquired	(1.980.484)	(511.669)	(2.492.153)
	<b>5.517.516</b>	<b>18.717.631</b>	<b>24.235.147</b>

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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### 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.

	<u>Principal activity</u>	<u>Date of acquisition</u>	<u>Proportion of interest acquired (%)</u>	<u>Consideration transferred</u>
Sabcool Ltd.	Industrial Type Cooler and Freezer Sales	28 December 2017	90	592.640
				<u>592.640</u>

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

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

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

### 3. BUSINESS COMBINATIONS (cont’d)

#### Subsidiaries acquired (cont’d)

#### Goodwill arising on acquisition

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

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

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

### 4. RELATED PARTY DISCLOSURES

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

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

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 30 June 2018 and 31 December 2017 are disclosed below:

	30 June 2018		
	Receivables		Payables
	Trade	Non-trade	Trade
P.T. Metalfrio Solutions Indonesia	2.844.769	617.178	-
LLC Klimasan Ukraine	954.127	-	-
Metalfrio Solutions Soğutma Sanayi ve Ticaret A.Ş.	227.168	-	94.826
Metalfrio Solutions Mexico S.A.Dec.V.	214.302	-	63.557
Metalfrio Solutions A/S Denmark	9.423	-	642.168
Rome Investment Management LTD.	-	-	264.224
	<u>4.249.789</u>	<u>617.178</u>	<u>1.064.775</u>
	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
	<u>6.803.511</u>	<u>33.467.284</u>	<u>158.768</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017**

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

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

Transactions with related parties	1 January - 30 June 2018						
	Purchases	Sales	Interest income	Rent income	Royalty expenses	Consultancy expenses	Other
P. T. Metafrio Solutions Indonesia	-	3.439.535	34.662	-	-	-	-
Metafrio Solutions Mexico S.A.Dec. V.	-	183.254	-	-	-	-	-
Metafrio Solutions A/S Denmark	7.775	-	-	-	279.152	-	-
Metafrio Solutions Sogutma Sanayi ve Ticaret A.Ş.	-	-	647.147	3.969	-	80.854	-
Metafrio Solutions Brazil	-	96.517	-	-	-	-	-
Rome Investment Management LTD.	-	-	-	-	658.408	-	-
	<u>7.775</u>	<u>3.719.306</u>	<u>681.809</u>	<u>3.969</u>	<u>937.560</u>	<u>80.854</u>	<u>-</u>

Transactions with related parties	1 January - 30 June 2017						
	Purchases	Sales	Interest income	Rent income	Royalty expenses	Consultancy expenses	Other
P. T. Metafrio Solutions Indonesia	-	641.662	-	-	-	-	-
OOO Metafrio Solutions Russia	194.368	8.172.514	-	-	-	-	-
LLC Klimasan Ukraine	-	11.745.011	-	-	-	-	-
Metafrio Solutions Mexico S.A.Dec. V.	-	137.786	-	-	-	-	88.958
Rome Investment Management LTD.	-	-	-	-	126.873	-	-
Metafrio Solutions A/S Denmark	31.093	-	-	-	122.084	-	-
Metafrio Solutions Sogutma Sanayi ve Ticaret A.Ş.	-	-	656.996	4.491	-	85.494	-
	<u>225.461</u>	<u>20.696.973</u>	<u>656.996</u>	<u>4.491</u>	<u>248.957</u>	<u>85.494</u>	<u>88.958</u>

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

(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 30 June 2018 and 31 December 2017 are disclosed below:

30 June 2018				
	Original Currency	Maturity	Interest Rate	Total
<b>Loans provided to related parties</b>				
P.T. Metalfrio Solutions Indonesia	US Dollar	1 July 2018	5,5%	55.000
P.T. Metalfrio Solutions Indonesia	US Dollar	1 August 2018	5,5%	65.000
P.T. Metalfrio Solutions Indonesia	US Dollar	9 September 2018	5,5%	7.000

31 December 2017				
	Original Currency	Maturity	Interest Rate	Total
<b>Loans provided to related parties</b>				
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 June 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:

	30 June 2018	30 June 2017
Salaries and other short-term benefits	3.967.917	2.579.525
	<u>3.967.917</u>	<u>2.579.525</u>



# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

(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 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018	31 December 2017
<b>Short-term trade receivables</b>		
Trade receivables	304.297.190	67.772.350
Trade receivables from related parties (Note 4)	4.249.789	6.803.511
Notes receivable	12.274.075	15.798.939
Allowance on doubtful trade receivables (-)	(16.287.376)	(13.478.602)
Unaccrued finance expense on trade receivables (-)	(5.984.118)	(834.370)
Unaccrued finance expense on notes receivable (-)	(261.245)	(400.332)
	<u>298.288.315</u>	<u>75.661.496</u>

The average credit period on sale of goods is 84 days (31 December 2017: 67 days).

As of 30 June 2018 and 31 December 2017, there is no long-term trade receivables.

Explanations about the nature and level of risks related to trade receivables are provided in Note 28.

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

Movements on the Group's provision for allowance of trade receivables for the period 30 June 2018 and 30 June 2017 are as follows:

	2018	2017
<b>Movement of allowance for doubtful trade receivables</b>		
Balance at 1 January	(13.478.602)	(11.476.342)
Charge for the period	(348.552)	-
Foreign currency exchange differences	(2.340.110)	(840.251)
Effect of acquisition	(125.870)	-
Amounts recovered during the period	5.758	352.896
Balance at 31 December	<u>(16.287.376)</u>	<u>(11.963.697)</u>

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

(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 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018	31 December 2017
<u>Short-term Trade Payables</u>		
Trade payables	161.735.243	136.152.310
Trade payables to related parties (Note 4)	1.064.775	158.768
Unaccrued finance income for trade payables (-)	(1.301.559)	(790.163)
	<u>161.498.459</u>	<u>135.520.915</u>

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

The average credit period on trade payables is 84 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 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018	31 December 2017
<u>Other Short-term Receivables</u>		
Receivables from related parties (Note 4)	617.178	33.467.284
Receivables from customs	1.506.114	1.263.916
Receivables from personnel	452.414	421.431
Other receivables	378.703	380.314
	<u>2.954.409</u>	<u>35.532.945</u>
	30 June	31 December
<u>Other Long-term Receivables</u>	<u>2018</u>	<u>2017</u>
Guarantee and deposits given	12.564	12.564
	<u>12.564</u>	<u>12.564</u>

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

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

(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 and long-term payables as of 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018	31 December 2017
<b>Other Short-term Payables</b>		
Other liabilities	994.312	338.097
	<u>994.312</u>	<u>338.097</u>
<b>Other Long-term Payables</b>		
Guarantee and deposits received	23.845	28.845
	<u>23.845</u>	<u>28.845</u>

### 7. INVENTORIES

The details of the inventories as of 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018	31 December 2017
Raw materials	74.328.601	49.990.137
Finished goods	30.596.083	47.301.380
Work in progress	7.677.660	3.327.508
Other inventories	1.408.229	1.059.714
Trade goods	656.037	1.838.542
Allowance for impairment on inventory (-)	(3.299.752)	(61.948)
	<u>111.366.858</u>	<u>103.455.333</u>

The cost of inventories recognized as expense and included in cost of goods sold amounted to TL 251.179.477 (30 June 2017: TL 155.969.949).

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

<b>Movement of allowance for impairment on inventory</b>	2018	2017
Balance at 1 January	(61.948)	(617.370)
(Charge) /reversal for the period , net	(1.516.203)	521.340
Effect of acquisition	(1.514.658)	-
Foreign currency exchange difference	(206.943)	-
Balance at 30 June	<u>(3.299.752)</u>	<u>(96.030)</u>

**KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2018**

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

**8. PREPAID EXPENSES AND DEFERRED INCOME**

	30 June 2018	31 December 2017
<b>Short-term Prepaid Expenses</b>		
Advances given to suppliers	8.404.183	12.374.737
Prepaid expenses to customs	624.420	1.227.939
Business advances given	995.673	412.952
Short-term prepaid expenses	2.076.039	949.112
	<u>12.100.315</u>	<u>14.964.740</u>
	30 June 2018	31 December 2017
<b>Long-term Prepaid Expenses</b>		
Advances given for fixed asset purchases	65.221	398.071
Long-term prepaid expenses	283.467	83.767
	<u>348.688</u>	<u>481.838</u>
	30 June 2018	31 December 2017
<b>Short-term Deferred Income</b>		
Advances received	4.183.883	2.153.518
Deferred income	867.002	28.036
	<u>5.050.885</u>	<u>2.181.554</u>

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

#### 9. PROPERTY, PLANT AND EQUIPMENT

The movement for property, plant and equipment as of 30 June 2018 is as follows:

<u>Cost Value</u>	Land		Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other tangible assets	Leaschold improvements	Construction in progress	Total
	Land improvements	Land								
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	480.379	-	24.133.156	10.765.638	404.881	993.358	-	-	248.108	37.025.520
Additions	-	-	371.565	2.115.424	-	1.247.916	94.663	48.227	4.368.410	8.246.205
Disposals	-	-	-	(1.451.454)	-	(568.615)	-	(116.230)	-	(2.136.299)
Transfers from construction in progress	-	-	419.402	13.799.109	-	69.156	3.339	-	(14.291.006)	-
Foreign currency translation differences	57.743	-	2.900.898	1.293.830	48.668	119.405	-	-	29.824	4.450.368
Closing balance as of 30 June 2018	2.975.685	718.195	46.808.243	105.613.019	458.911	16.837.098	911.851	333.341	549.507	175.205.850
<u>Accumulated Depreciation</u>										
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	-	-	(7.521.830)	(8.652.328)	(342.693)	(711.901)	-	-	-	(17.228.752)
Charge for the period	-	(23.940)	(835.974)	(3.599.729)	(34.391)	(831.645)	(32.953)	(86.167)	-	(5.444.799)
Disposals	-	-	-	1.451.454	-	558.549	-	84.950	-	2.094.953
Foreign currency translation differences	-	-	(904.153)	(953.163)	(41.193)	(85.573)	-	-	-	(1.984.082)
Closing balance as of 30 June 2018	-	(388.185)	(13.268.697)	(57.579.805)	(419.935)	(11.190.611)	(507.695)	(102.633)	-	(83.457,561)
Carrying value as of 30 June 2018	2.975.685	330.010	33.539.546	48.033.214	38.976	5.646.487	404.156	230.708	549.507	91.748.289

TL 5.094.999 (30 June 2017: TL 2.721.846) of depreciation and amortization expenses was allocated to cost of goods sold, TL 283.732 (30 June 2017: TL 169.795) to marketing expenses, TL 352.536 (30 June 2017: TL 263.860) to administrative expenses and TL 2.541.219 (30 June 2017: TL 2.214.764) to research and development.

As of 30 June 2018, the total amount of insurance on plant, property and equipment is TL 225.304.954 (31 December 2017: TL 177.005.450).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2018**

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

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

The movement for property, plant and equipment as of 30 June 2017 is as follows:

<u>Cost Value</u>	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other tangible assets	Leaschold Improvements	Construction in progress	Total
Opening balance as of 1 January 2017	2.437.563	610.533	18.581.488	65.161.084	1.658	12.404.801	658.414	97.980	7.782.518	107.736.039
Additions	-	103.211	10.664	1.612.284	-	764.739	62.163	5.250	6.655.610	9.213.921
Disposals	-	-	-	(1.170.151)	-	(9.528)	-	-	(30.506)	(1.210.185)
Transfers from construction in progress	-	-	360.398	12.711.449	-	651.988	-	-	(14.070.033)	(346.198)
Closing balance as of 30 June 2017	2.437.563	713.744	18.952.550	78.314.666	1.658	13.812.000	720.577	103.230	337.589	115.393.577
<u>Accumulated Depreciation</u>										
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	-	(21.905)	(234.767)	(2.180.820)	-	(552.688)	(21.122)	(16.476)	-	(3.027.778)
Disposals	-	-	-	1.119.564	-	9.528	-	-	-	1.129.092
Closing balance as of 30 June 2017	-	(340.305)	(3.769.523)	(44.714.047)	(1.658)	(9.545.325)	(448.646)	(60.565)	-	(58.880.069)
Carrying value as of 30 June 2017	2.437.563	373.439	15.183.027	33.600.619	-	4.266.675	271.931	42.665	337.589	56.513.508

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

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

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

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

### 10. INTANGIBLE ASSETS

The movement for intangible assets as of 30 June 2018 is as follows:

<u>Cost Value</u>	<u>Capitalized research and development expenses</u>	<u>Rights</u>	<u>Construction in progress</u>	<u>Total</u>
Opening balance as of 1 January 2018	34.437.841	3.708.345	2.717.379	40.863.565
Additions	-	282.742	4.780.983	5.063.725
Transfers from construction in progress	1.691.031	-	(1.691.031)	-
Closing balance as of 30 June 2018	<u>36.128.872</u>	<u>3.991.087</u>	<u>5.807.331</u>	<u>45.927.290</u>
<u>Accumulated Amortization</u>				
Opening balance as of 1 January 2017	(19.713.325)	(3.263.845)	-	(22.977.170)
Charge for the period	(2.643.925)	(183.762)	-	(2.827.687)
Closing balance as of 30 June 2017	<u>(22.357.250)</u>	<u>(3.447.607)</u>	-	<u>(25.804.857)</u>
Carrying value as of 30 June 2017	<u>13.771.622</u>	<u>543.480</u>	<u>5.807.331</u>	<u>20.122.433</u>

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

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

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

The movement for intangible assets as of 30 June 2017 is as follows:

<b>Cost Value</b>	<b>Capitalized research and development expenses</b>	<b>Rights</b>	<b>Construction in progress</b>	<b>Total</b>
Opening balance as of 1 January 2017	29.121.017	3.275.162	1.040.094	33.436.273
Additions	-	73.405	3.474.391	3.547.796
Transfers from construction in progress	-	346.198	-	346.198
Closing balance as of 30 June 2017	29.121.017	3.694.765	4.514.485	37.330.267
<b>Accumulated Amortization</b>				
Opening balance as of 1 January 2017	(15.240.602)	(2.939.934)	-	(18.180.536)
Charge for the period	(2.164.389)	(178.098)	-	(2.342.487)
Closing balance as of 30 June 2017	(17.404.991)	(3.118.032)	-	(20.523.023)
Carrying value as of 30 June 2017	11.716.026	576.733	4.514.485	16.807.244

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

### 11. GOODWILL

	<b>30 June 2018</b>	<b>31 December 2017</b>
Cost value		
Opening balance	383.655	-
Additional amounts recognised from business combinations occurring during the year	-	383.655
Closing balance	383.655	383.655

TL 383.655 of goodwill was arisen from the acquisition of Sabcool Ltd on 28 December 2017.



# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

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### 12. GOVERNMENT GRANT AND INCENTIVES

Group has revised the incentive certificate that dated 15 May 2014 and numbered 114837 given by the Ministry of Economy with the domestic list with an amount of TL 21.954.453 and export list with an amount of USD 4.773.224 numbered C 114837. Expiry date of the incentive certificate is expanded to 30 August 2018. The Group applied to General Directorate of Incentive Practices and Foreign Capital for the closing certification of investment of the document numbered C 114837 and acquired the certificate at 4 February 2018. The Group received investment incentive certificate numbered 135809 and dated 6 March 2018 from Ministry of Finance General Directorate of Incentive Practices and Foreign Capital with the domestic list with an amount of TL 21.954.453 and an export list with an amount of TL 13.461.330 .

Tax Law numbered 5520 dated 28 February 2009 and Law numbered 5838 was added by 32/A specified scope of the article and the Ministry of Treasury and Economy of the investment incentives derived from investments connected to document earnings partially or completely since the beginning of the accounting period till the contribution amount discount Corporate Tax can be applied. In addition, according to the Decree on State Aids for Investments no. 2012/3305, which was updated with the Council of Ministers Decree No. 2017/9917 published in Official Gazette dated 22/02/2017 and numbered 29987, for the investment expenditures realized between 1/1/2017 and 31/12/2017, the investment contribution rate used in tax reduction incentive has been raised from 30% to 45%. Hence, the corporate tax reduction is applied at a rate of a hundred percent and the rate to be applied to the profits from the investor's other activities in the investment period of the investment contribution of the investor's contribution during the investment period is applied at a rate of a hundred percent.

Additionally, 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 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018	31 December 2017
Warranty provisions (i)	5.706.216	3.226.783
Legal provisions (ii)	1.181.672	995.887
Other provisions	586.621	45.636
	<u>7.474.509</u>	<u>4.268.306</u>

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

(ii) Legal provisions consist of ongoing business and trade lawsuits of the Group. Legal provision is accounted in other operating expenses in statement of profit or loss. Based on the Group management opinion, considering the legal opinion received, the outcome of the lawsuits will not cause a significant loss in addition to the provision recognized as of 30 June 2018.

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**13. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont’d)**

The details of the movement for warranty provision as of 30 June 2018 and 30 June 2017 are as follows:

**Warranty provisions**

	<u>2018</u>	<u>2017</u>
Balance at 1 January	3.226.783	2.357.549
Effect of acquisition	763.460	-
Provision expense, net	1.624.201	371.547
Foreign currency translation difference	91.772	-
Provision at 30 June	<u>5.706.216</u>	<u>2.729.096</u>

The movement for legal claims as of 30 June 2018 and 30 June 2017 are as follows:

**Legal provisions**

	<u>2018</u>	<u>2017</u>
Balance at 1 January	995.887	745.380
Payments	(379.183)	(17.100)
Additional provision	564.968	24.502
Provision at 30 June	<u>1.181.672</u>	<u>752.782</u>

**14. COMMITMENTS**

**Guarantees-Pledge-Mortgage (“GPM”)**

The Group’s GPM position as at 30 June 2018 and 31 December 2017 is as follows:

<u>30 June 2018</u>	<u>TL Equivalent</u>	<u>Euro</u>	<u>US Dollar</u>	<u>TL</u>
The Total of GPM That Are Given in the Name of Its Own Legal Personality	221.994.046	40.307.723	1.500.000	1.151.233
<i>- Guarantees</i>	221.994.046	40.307.723	1.500.000	1.151.233
<b>Total</b>	<u>221.994.046</u>	<u>40.307.723</u>	<u>1.500.000</u>	<u>1.151.233</u>
<u>31 December 2017</u>	<u>TL Equivalent</u>	<u>Euro</u>	<u>US Dollar</u>	<u>TL</u>
The Total of GPM That Are Given in the Name of Its Own Legal Personality	185.057.683	38.988.767	1.917.270	1.772.155
<i>- Guarantees</i>	185.057.683	38.988.767	1.917.270	1.772.155
<b>Total</b>	<u>185.057.683</u>	<u>38.988.767</u>	<u>1.917.270</u>	<u>1.772.155</u>

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### 14. COMMITMENTS (cont'd)

The Group's guarantees position as at 30 June 2018 and 31 December 2017 is as follows:

	30 June 2018	31 December 2017
Eximbank loans (*)	212.674.463	164.427.465
Ziraat Bank International A.G. (**)	-	10.541.938
Suppliers	8.168.350	8.356.125
Customers	666.560	511.560
Industrial Zone	291.200	368.560
Custom Offices	13.952	110.763
Other	179.521	741.272
<b>Total contingent liabilities</b>	<b>221.994.046</b>	<b>185.057.683</b>

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

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

### 15. PROVISIONS OF EMPLOYEE TERMINATION BENEFITS

#### Payables related to employee benefits:

	30 June 2018	31 December 2017
Social security premiums payable	1.412.135	1.739.360
Due to personnel	2.773.286	1.628.061
	<b>4.185.421</b>	<b>3.367.421</b>

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

	30 June 2018	31 December 2017
Provision for bonus	1.795.099	1.250.000
Unused vacation provision	1.580.751	999.348
	<b>3.375.850</b>	<b>2.249.348</b>

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

As of 30 June 2018 and 30 June 2017, movement of bonus provision 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	501.079	-
Additional provision	1.702.658	200.056
Foreign currency translation difference	60.232	-
Provision at 30 June	<u>1.795.099</u>	<u>800.000</u>

As of 30 June 2018 and 30 June 2017, movement of unused vacation is as follows:

	2018	2017
Balance at January 1	999.348	649.131
Payments	(545.689)	(187.650)
Additional provision	1.127.092	737.248
Provision at 30 June	<u>1.580.751</u>	<u>1.198.729</u>

### Long-term provisions for employee benefits

#### Provision for retirement pay liability

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

The amount payable consists of one month's salary limited to a maximum of TL 5.001,76 for each period of service at 30 June 2017 (31 December 2017: TL 4.732,48). Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees. TAS 19 *Employee Benefits* stipulates the development of group's liabilities by using actuarial valuation methods under defined benefit plans. In this direction, actuarial assumptions used in calculation of total liabilities are described as follows:

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 30 June 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 4,21% real discount rate (31 December 2017: 4,21%) calculated by using 7% annual inflation rate and 11,50% discount rate. Estimated amount of retirement pay not paid due to voluntary leaves is also taken into consideration as, 5,89% for employees with 0-15 years of service, and 0% for those with 16 or more years of service. Ceiling amount for provision for retirement pay is revised semiannually, and the ceiling amount of TL 5.434,42 which is effective since 1 January 2018 is used in the calculation of Group's provision for retirement pay liability.

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**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 949.583 (TL 787.428).
- 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 200.293 (TL 225.085)

As of 30 June 2018 and 30 June 2017, the provision for retirement pay movement is as follows:

	<u>2018</u>	<u>2017</u>
Provision at 1 January	5.818.550	4.894.724
Service cost	1.563.649	932.969
Interest cost	121.347	102.563
Payments	(587.645)	(575.723)
Actuarial loss	69.779	29.500
Provision at 30 June	<u>6.985.680</u>	<u>5.384.033</u>

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

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### 16. EXPENSES BY NATURE

Details of expenses by nature based on function for the three months period ended 30 June 2018 and 30 June 2017 are disclosed in Note; 19 - 20.

### 17. OTHER ASSETS AND LIABILITIES

The details of the other current assets as of 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018	31 December 2017
<u>Other Current Assets</u>		
Restricted bank deposits	-	9.208.766
VAT return	3.367.620	4.515.838
Deferred VAT	1.944.740	6.625.657
Other current assets	88.220	158.798
	<u>5.400.580</u>	<u>20.509.059</u>

The details of the other current liabilities as of 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018	31 December 2017
<u>Other Short-term Liabilities</u>		
Excise tax payable	1.991.478	1.250.492
VAT payable	3.051.475	33.022
Taxes and fund payable	321.835	-
	<u>5.364.788</u>	<u>1.283.514</u>

# KLİMASAN KLİMA SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

Shareholders	Share		30 June		31 December	
	Type	%	2018	%	2017	
Metalfrío Solutions Soğutma Sanayi ve Tic. A.Ş.	A	43,4	14.357.540	43,4	14.357.540	
Metalfrío Solutions Soğutma Sanayi ve Tic. A.Ş.	B	8,8	2.887.500	8,8	2.887.500	
Metalfrío Solutions Soğutma Sanayi ve Tic. A.Ş.	C	8,8	2.887.500	8,8	2.887.500	
Publicly traded (*)	D	39	12.867.460	39	12.867.460	
Nominal capital		100	33.000.000	100	33.000.000	
Inflation adjustment differences			980.882		980.882	
Adjusted capital			33.980.882		33.980.882	

(\*) Metalfrío Solutions Soğutma Sanayi ve Tic. A.Ş.'s share in the capital structure of the Company is 68,75% when the 7,75% of the shares that are publicly trades is taken into consideration.

At 30 June 2018, the paid-in capital of the Group comprised 3.300.000.000 shares issued TL 0,01 each (31 December 2017: 3.300.000.000). The privileges given to ordinary shares are as follows:

At 30 June 2018 and 31 December 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.

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

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

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

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

#### Profit Distribution

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

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

The Group’s net profit is TL 14.696.757 in the financial statements for the year 2017 prepared in accordance with the requirements of Capital Markets Law and Capital Markets Board (CMB) and the Company has incurred TL (9.035.102) loss in the financial statements prepared in accordance with Tax Legislations. Net profit for the period attributable is amounted to TL 14.698.707 calculated by adding donations paid within the period in the financial statements prepared in accordance with Tax Legislations.

#### b) Restricted Reserves Appropriated from Profit

As of 30 June 2018 and 31 December 2017, restricted reserves appropriated from profit is as follows:

	30 June 2018	31 December 2017
Restricted reserves seperated from the profit	5.666.104	5.666.104
	<u>5.666.104</u>	<u>5.666.104</u>



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### 19. REVENUE

#### a) Sales

	1 January- 30 June 2018	1 January- 30 June 2017	1 April- 30 June 2018	1 April- 30 June 2017
Domestic sales	242.735.605	118.159.187	128.122.281	88.569.579
Export sales	160.414.533	115.959.042	92.316.782	68.749.878
Other sales (*)	18.122.499	15.992.903	10.154.802	8.691.529
Sales deductions and discounts (**)	(18.182.863)	(6.289.453)	(11.119.292)	(3.345.210)
	<u>403.089.774</u>	<u>243.821.679</u>	<u>219.474.573</u>	<u>162.665.776</u>

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

(\*\*) Sales deductions and discounts include returns related to sales, discounts, sales commission, turnover volume rebates and re-charged transportation expenses.

#### b) Cost of Sales

	1 January- 30 June 2018	1 January- 30 June 2017	1 April- 30 June 2018	1 April- 30 June 2017
Raw materials expenses	(238.824.332)	(156.163.589)	(122.621.602)	(89.687.453)
Personnel expenses	(35.529.410)	(22.476.857)	(18.265.991)	(12.243.066)
Production overheads	(10.679.971)	(6.653.649)	(5.478.404)	(3.588.640)
Depreciation and amortization expenses (Note 9,10)	(5.094.999)	(2.721.846)	(2.773.769)	(1.533.648)
Change in finished goods inventories (Note 7)	(16.705.297)	(2.001.355)	(10.517.617)	(20.887.932)
Change in work in progress inventories (Note 7)	4.350.152	2.194.995	(1.770.622)	(656.744)
Other	(15.131.154)	(10.070.114)	(8.966.644)	(4.744.161)
	<u>(317.615.011)</u>	<u>(197.892.415)</u>	<u>(170.394.649)</u>	<u>(133.341.644)</u>

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

	1 January- 30 June 2018	1 January- 30 June 2017	1 April- 30 June 2018	1 April- 30 June 2017
General administrative expenses (-)	(9.931.196)	(6.339.006)	(4.997.605)	(3.079.021)
Marketing and sales expenses (-)	(25.196.607)	(15.740.416)	(13.215.440)	(8.882.064)
Research and development expenses (-)	(2.541.219)	(2.233.227)	(1.330.501)	(1.091.207)
	<u>(37.669.022)</u>	<u>(24.312.649)</u>	<u>(19.543.546)</u>	<u>(13.052.292)</u>

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**20. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES AND RESEARCH AND DEVELOPMENT EXPENSES (cont’d)**

a) General Administrative expenses

	1 January- 30 June 2018	1 January- 30 June 2017	1 April- 30 June 2018	1 April- 30 June 2017
Payroll expenses	(6.100.922)	(3.593.528)	(3.077.628)	(1.778.174)
Consultancy expenses	(1.249.537)	(526.596)	(659.224)	(256.956)
Outsource expenses	(444.451)	(311.112)	(244.750)	(141.926)
Depreciation and amortization expenses (Note 9, 10)	(352.536)	(263.860)	(182.664)	(134.034)
Attendance fee of board of directors	(370.000)	(336.000)	(208.000)	(81.463)
Taxes and other legal dues	(188.162)	(327.781)	(36.806)	(156.781)
Rent expenses	(255.549)	(190.291)	(137.561)	(100.426)
Travel expenses	(213.739)	(177.212)	(133.780)	(125.390)
Insurance expenses	(111.655)	(108.190)	(43.132)	(56.445)
Training expenses	(48.122)	(25.677)	(14.169)	(11.814)
Other	(596.523)	(478.759)	(259.891)	(235.612)
	<u>(9.931.196)</u>	<u>(6.339.006)</u>	<u>(4.997.605)</u>	<u>(3.079.021)</u>

b) Marketing expenses

	1 January- 30 June 2018	1 January- 30 June 2017	1 April- 30 June 2018	1 April- 30 June 2017
Payroll expenses	(6.483.262)	(4.165.924)	(3.367.909)	(2.215.817)
Transportation expenses	(5.871.409)	(4.100.810)	(2.873.065)	(2.995.716)
Warranty expenses	(4.330.805)	(2.063.469)	(2.385.932)	(1.021.861)
Rent expenses	(2.916.568)	(1.491.161)	(1.413.108)	(679.411)
Outsource expenses	(1.065.677)	(749.362)	(575.515)	(393.040)
Travel expenses	(913.817)	(680.417)	(496.864)	(362.839)
Custom expenses	(526.921)	(197.777)	(308.574)	(108.546)
Advertising expenses	(798.992)	(600.242)	(583.143)	(337.923)
Training expenses	(155.733)	(120.699)	(8.296)	(35.270)
Depreciation and amortization expenses (Note 9, 10)	(283.732)	(169.795)	(144.753)	(84.267)
Insurance expenses	(207.062)	(178.035)	(96.736)	(92.410)
Consultancy expenses	(247.138)	(231.811)	(140.396)	(112.550)
Other	(1.395.491)	(990.914)	(821.151)	(442.414)
	<u>(25.196.607)</u>	<u>(15.740.416)</u>	<u>(13.215.440)</u>	<u>(8.882.064)</u>

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### 20. GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES AND RESEARCH AND DEVELOPMENT EXPENSES (cont’d)

#### c) Research and development expenses

	1 January- 30 June 2018	1 January- 30 June 2017	1 April- 30 June 2018	1 April- 30 June 2017
Depreciation and amortization expenses (Note 9, 10)	(2.541.219)	(2.214.764)	(1.330.501)	(1.091.207)
Other	-	(18.463)	-	-
	<u>(2.541.219)</u>	<u>(2.233.227)</u>	<u>(1.330.501)</u>	<u>(1.091.207)</u>

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

The details of other income and expenses from operating activities for the periods ended 30 June 2018 and 30 June 2017 are as follows:

	1 January- 30 June 2018	1 January- 30 June 2017	1 April- 30 June 2018	1 April- 30 June 2017
Foreign currency gains from operations, net	5.799.840	2.507.076	4.709.722	728.511
Income from scrap sales	832.041	598.794	361.986	339.935
Income from tax incentives related to R&D	618.797	421.709	361.166	212.668
Provisions released (Note 5)	5.758	352.896	-	352.896
Gain on sales of fixed asset	25.860	87.332	(4.971)	77.372
Other income	-	325.757	-	(145.084)
	<u>7.282.296</u>	<u>4.293.564</u>	<u>5.427.903</u>	<u>1.566.298</u>
	1 January- 30 June 2018	1 January- 30 June 2017	1 April- 30 June 2018	1 April- 30 June 2017
Provision for doubtful trade receivables (Note 5)	(348.552)	-	(272.472)	-
Discount income / (expense) , net	(4.499.265)	(1.727.361)	(1.176.775)	(1.678.264)
Provision for legal claims (Note 13)	(564.968)	(24.502)	(177.906)	(24.502)
Other expenses from operations	(794.672)	(70.083)	(423.752)	(27.686)
	<u>(6.207.457)</u>	<u>(1.821.946)</u>	<u>(2.050.905)</u>	<u>(1.730.452)</u>

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### 22. INCOME AND EXPENSES FROM INVESTING ACTIVITIES

The details of income and expenses from investing activities for the periods ended 30 June 2018 and 30 June 2017 are as follows:

#### Income from investing activities

	1 January- 30 June 2018	1 January- 30 June 2017	1 April- 30 June 2018	1 April- 30 June 2017
Increase in value of financial investments (*)	15.123.407	24.704.445	6.010.926	1.280.253
Interest income	5.648.294	9.765.445	2.539.487	4.000.726
Foreign exchange gains related to investing activities, net	16.730.915	7.214.506	10.658.047	(2.566.232)
	<u>37.502.616</u>	<u>41.684.396</u>	<u>19.208.460</u>	<u>2.714.747</u>

#### Expenses from investing activities

	1 January- 30 June 2018	1 January- 30 June 2017	1 April- 30 June 2018	1 April- 30 June 2017
Decrease in value of financial investments (*)	<u>(22.311.499)</u>	<u>(36.163.945)</u>	<u>(11.113.925)</u>	<u>(23.988.823)</u>
	<u>(22.311.499)</u>	<u>(36.163.945)</u>	<u>(11.113.925)</u>	<u>(23.988.823)</u>

(\*) Increase and decrease in financial investments is resulted from eurobond portfolio and the increase / decrease in the fair value of the investment fund and shares which the company holds.

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**23. FINANCE INCOME AND EXPENSES**

	1 January- 30 June 2018	1 January- 30 June 2017	1 April- 30 June 2018	1 April- 30 June 2017
Foreign exchange expenses, net	(52.160.782)	(19.651.052)	(33.546.847)	(6.545.229)
Interest expenses (-)	(10.496.702)	(5.952.279)	(4.669.265)	(3.127.715)
Interest income	699.655	678.915	230.210	316.425
Other finance expenses (-)	(1.211.155)	(1.755.171)	(674.024)	(918.922)
	<u>(63.168.984)</u>	<u>(26.679.587)</u>	<u>(38.659.926)</u>	<u>(10.275.441)</u>

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

	30 June 2018	31 December 2017
<i>Current tax liability / (asset)</i>		
Current corporate tax provision	-	-
Less: Prepaid taxes and funds	-	-
	<u>-</u>	<u>-</u>

*Income tax recognized in profit or loss*

	1 January- 30 June 2018	1 January- 30 June 2017
Current tax expense	-	(112.120)
Deferred tax income relating to origination and reversal of temporary differences	2.982.090	1.784.105
Total tax expense	<u>2.982.090</u>	<u>1.671.985</u>

	1 January- 30 June 2018	1 January- 30 June 2017
<i>Deferred tax</i>		
Recorded directly in equity :		
- Actuarial gain	13.956	5.900
	<u>13.956</u>	<u>5.900</u>

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

#### Corporate Tax

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

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

Metalfrio Poland SP. Z.o.o. operates in Poland and is subject to 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%).

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.

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

Deferred Tax

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

Tax rate used in the calculation of deferred tax assets and liabilities was 22% over temporary timing differences expected to be reversed in 2018, 2019 and 2020, and 20% over temporary timing differences expected to be reversed in 2021 and the following years (2017: 20%).

Movement of deferred tax asset and liabilities for the period ended 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018	31 December 2017
<u>Deferred tax assets / (liabilities):</u>		
Deferred tax asset arising from investment incentive	2.063.037	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	1.397.136	1.163.710
Provision for warranty	933.874	645.522
Seasonality adjustments and impairment on inventory	331.555	335.676
Adjustments related to unaccrued finance expense for trade receivables and notes receivables	1.373.980	271.634
Adjustments for the other provisions	155.636	244.140
Provision for bonuses	341.000	275.000
Unused vacation provision	347.765	219.857
Adjustments related to legal claims	259.968	219.095
Adjustments related to the sales commission and rebates	763.005	96.162
Valuation differences on the debentures and bonds	1.662.071	(2.591.599)
Depreciation adjustments for tangible assets and amortisation adjustments for intangible assets	(1.224.370)	(1.150.160)
Valuation differences of derivative instruments	505.554	(239.702)
Adjustments related to unaccrued finance income for trade payables	(286.343)	(173.836)
Adjustments related to allowance for doubtful receivables	76.681	-
Other	(248.585)	(122.372)
	<u>8.451.964</u>	<u>5.455.918</u>

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

Deferred Tax (cont’d)

Movement of deferred tax assets

	2018	2017
Opening balance as of 1 January	5.455.918	4.186.159
Charged to profit or loss	2.982.090	1.784.105
Charged to equity	13.956	5.900
Closing balance as of 30 June	<u>8.451.964</u>	<u>5.976.164</u>

Reconciliation of the current tax expense / (income) for the period with the profit for the period is as follows:

	1 January- 30 June 2018	1 January- 30 June 2017	1 April- 30 June 2018	1 April- 30 June 2017
<u>Reconciliation of tax charge:</u>				
Profit before tax	902.713	2.929.097	2.347.985	(15.441.831)
Income tax rate of 22% (2017: 20%)	198.597	585.819	516.557	(3.088.366)
Tax effects of:				
- revenue is exempt from taxation	(399.015)	(99.195)	(340.826)	(59.737)
- non-deductible expenses	123.851	339.222	97.213	254.412
- expenses that are subject to reduced corporate tax within the scope of investment incentives	(1.509.902)	(3.457.491)	(1.121.006)	(1.337.433)
- research and development incentives and other discounts	(914.493)	-	(467.581)	-
- effects of different tax rates on the subsidiary	(154.243)	41.534	(199.036)	35.399
- other	(326.885)	918.126	(410.814)	(82.979)
Income tax expense recognised in profit or loss	<u>(2.982.090)</u>	<u>(1.671.985)</u>	<u>(1.925.493)</u>	<u>(4.278.704)</u>



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**25. EARNINGS PER SHARE**

The computation for the periods ended 30 June 2018 and 2017 is as follows:

<b>Earnings per share</b>	<b>1 January- 30 June 2018</b>	<b>1 January- 30 June 2017</b>	<b>1 April- 30 June 2018</b>	<b>1 April- 30 June 2017</b>
Number of weighted average of ordinary sale which has TL 1 nominal value	33.000.000	33.000.000	33.000.000	33.000.000
<b>Net profit / (loss) for the period</b>	3.884.803	4.601.082	4.273.478	(11.163.127)
Earnings / (Loss) per share	0,1177	0,1394	0,1295	(0,3383)

**26. DERIVATIVE FINANCIAL INSTRUMENTS**

Currency Derivatives:

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

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

	<b>30 June 2018</b>		<b>31 December 2017</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Forward contracts	-	(2.297.975)	1.089.555	-
	-	(2.297.975)	1.089.555	-
Short-term	-	(2.297.975)	1.089.555	-
	-	(2.297.975)	1.089.555	-

The forward foreign exchange contracts regarding the foreign currency risks of 30 June 2018 and 31 December 2017 are as follows:

<b>Forward contracts</b>	<b>30 June 2018</b>	<b>31 December 2017</b>
Sales Contract - US Dollar (against Euro)	36.652.500	24.036.000
Sales Contract - Euro (against US Dollar)	30.000.000	-
Purchase Contract - Euro (against US Dollar)	30.000.000	20.000.000
Purchase Contract - US Dollar (against Euro)	36.517.000	-
Purchase Contract - Euro (against TL)	30.000.000	-

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### 27. FINANCIAL INSTRUMENTS

#### Financial Investments

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

	30 June 2018	31 December 2017
Eurobonds	40.587.791	151.146.340
Investment funds (*)	53.182.642	-
Common stocks listed in the stock exchange	5.527.514	-
	<u>99.297.947</u>	<u>151.146.340</u>

The Group, in order to evaluate the resulting surplus funds during certain periods, invests in various countries' the private sector bonds and bills. The Group performs transactions regardless of maturity in accordance with the current market conditions. Current portfolio consisting of 45% US Dollar and 55% Euro, the Eurobond portfolio are valued at market prices each period and profit or loss effect is presented periodically in the consolidated financial statements.

(\*) Investment funds consists of funds of Kondor Fund SPC.

#### Financial Liabilities

	30 June 2018	31 December 2017
Short-term	10.626.582	-
Short-term portion of long-term borrowings	89.889.269	78.678.177
Long-term	327.505.699	264.613.574
	<u>428.021.550</u>	<u>343.291.751</u>

Currency type	Weighted average effective interest rate	30 June 2018	
		Short-term	Long-term
Euro	2,35% - 4,40%	100.515.851	327.505.699
		<u>100.515.851</u>	<u>327.505.699</u>

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

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

**Financial Liabilities (cont'd)**

The borrowings are repayable as follows:

	30 June 2018	31 December 2017
To be paid within 1 year	100.515.851**	78.678.177
To be paid between 1-2 years	169.208.255	108.860.243
To be paid between 2-3 years	76.831.135	98.066.477
To be paid between 3-4 years	16.386.277	12.541.263
To be paid between 4-5 years	16.385.816	9.029.627
To be paid in more than 5 years	48.694.216	36.115.964
	<u>428.021.550</u>	<u>343.291.751</u>

Group's cash and non-cash loans are guaranteed by Group's ultimate shareholder Metalfrío 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.

	1 January 2018	Financial cash flows	Non-cash changes		30 June 2018
			Movements of exchange differences	Interest accrual	
Bank loans	343.291.751	13.431.264	66.670.306	4.628.229	428.021.550
	<u>343.291.751</u>	<u>13.431.264</u>	<u>66.670.306</u>	<u>4.628.229</u>	<u>428.021.550</u>

	1 January 2017	Financial cash flows	Non-cash changes		31 December 2017
			Movements of exchange differences	Interest accrual	
Bank loans	335.289.288	(55.035.315)	61.237.353	1.800.425	343.291.751
	<u>335.289.288</u>	<u>(55.035.315)</u>	<u>61.237.353</u>	<u>1.800.425</u>	<u>343.291.751</u>

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### 28. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

#### a) Capital risk management

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

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 27, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

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

There is no change made to the strategy of the Group comparing to the prior period.

The gearing ratio is calculated as total borrowings less cash and cash equivalents and financial investments divided by total capital and the gearing ratio as at 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018	31 December 2017
Financial Liabilities	428.021.550	343.291.751
Less: Cash and Cash Equivalents and Short-term Financial Investments	<u>(225.884.909)</u>	<u>(302.918.297)</u>
Net Debt	202.136.641	40.373.454
Total Equity	151.789.705	146.728.669
Total Share Capital	<u>353.926.346</u>	<u>187.102.123</u>
Net Debt / Total Equity Ratio	<u>57%</u>	<u>22%</u>

#### b) Financial Risk Factors

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

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

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

**b.1) Credit risk management**

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

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

Details of credit risk by class of financial instruments	Receivables				Deposits at Banks	Financial Investments
	Trade Receivables		Other Receivables			
	Related Party	Other	Related Party	Other		
<b>30 June 2018</b>						
Maximum credit risk as of reporting date (A+B+C+D) (*)	4.249.789	294.038.526	617.178	2.349.795	126.562.313	99.297.947
- Portion of maximum risk secured by guarantees etc. (**)	-	10.960.224	-	-	-	-
A. Net carrying value of neither past due nor impaired financial assets	72.161	265.237.883	617.178	2.349.795	126.562.313	99.297.947
B. Net carrying value of past due but nor impaired financial assets	4.177.628	28.800.643	-	-	-	-
C. Net carrying value of impaired financial assets						
- Past due (gross carrying value)	-	16.287.376	-	-	-	-
- Impairment (-)	-	(16.287.376)	-	-	-	-
- 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.

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

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

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

Details of credit risk by class of financial instruments	Receivables				Deposits at Banks	Financial Investments
	Trade Receivables		Other Receivables			
	Related Party	Other	Related Party	Other		
<b>31 December 2017</b>						
Maximum credit risk as of reporting date (A+B+C+D) (*)	6.803.511	68.857.985	33.467.284	2.078.225	151.724.657	151.146.340
- Portion of maximum risk secured by guarantees etc. (**)	-	8.811.150	-	-	-	-
A. Net carrying value of neither past due nor impaired financial assets	5.916.957	52.295.586	33.467.284	2.078.225	151.724.657	151.146.340
B. Net carrying value of past due but nor impaired financial assets	886.554	16.562.399	-	-	-	-
C. Net carrying value of impaired financial assets						
- Past due (gross carrying value)	-	13.478.602	-	-	-	-
- Impairment (-)	-	(13.478.602)	-	-	-	-
- Net value part secured with collateral	-	-	-	-	-	-
- Undue (gross carrying value)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Net value part secured with collateral	-	-	-	-	-	-
D. Credit risk included off the balance sheet items	-	-	-	-	-	-

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

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

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.

<u>Trade Receivables</u>	30 June 2018	31 December 2017
Past due up to 30 days	26.145.125	11.247.386
Past due 1 - 3 months	4.793.657	2.672.163
Past due 3 - 12 months	865.442	1.439.717
Past due 1 - 5 year	1.174.047	2.089.687
<b>Total past due receivables</b>	<b>32.978.271</b>	<b>17.448.953</b>

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

b) Financial Risk Factors (cont'd)

b.2) Liquidity risk management

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

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

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

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

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Interests to be paid on these liabilities are included in the table below:

30 June 2018

<b>Contract Terms</b>	<b>Carrying value</b>	<b>Total cash outflows as per the terms of agreement</b>				
		<b>(I+II+III+IV)</b>	<b>Less than 3 months (I)</b>	<b>Between 3-12 months (II)</b>	<b>Between 1-5 years (III)</b>	<b>More than 5 years (IV)</b>
<b>Non-derivative financial liabilities</b>						
Bank borrowings	(428.021.550)	(462.303.661)	(7.257.676)	(104.937.693)	(295.687.972)	(54.420.320)
Trade payables	(161.498.459)	(161.633.416)	(149.179.928)	(12.453.488)	-	-
Other payables	(1.018.157)	(1.018.157)	(994.312)	-	(23.845)	-
<b>Total liabilities</b>	<b>(590.538.166)</b>	<b>(624.955.234)</b>	<b>(157.431.916)</b>	<b>(117.391.181)</b>	<b>(295.711.817)</b>	<b>(54.420.320)</b>
Derivative cash inflows	170.300.605	170.300.605	170.300.605	-	-	-
Derivative cash outflow	(172.598.580)	(172.598.580)	(169.080.000)	(3.518.580)	-	-

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

b) Financial Risk Factors (cont’d)

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

31 December 2017

<u>Contract Terms</u>	<u>Carrying value</u>	<u>Total cash outflows as per the terms of agreement (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>Between 3-12 months (II)</u>	<u>Between 1-5 years (III)</u>	<u>More than 5 years (IV)</u>
<b>Non-derivative financial liabilities</b>						
Bank borrowings	(343.291.751)	(372.090.783)	(5.785.570)	(82.481.757)	(245.013.595)	(38.809.861)
Trade payables	(135.520.915)	(136.462.001)	(123.349.895)	(13.066.826)	(45.280)	-
Other payables	(366.942)	(366.942)	(338.097)	-	(28.845)	-
<b>Total liabilities</b>	<b>(479.179.608)</b>	<b>(508.919.726)</b>	<b>(129.473.562)</b>	<b>(95.548.583)</b>	<b>(245.087.720)</b>	<b>(38.809.861)</b>
Derivative cash inflows	1.089.555	90.310.000	-	90.310.000	-	-
Derivative cash 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 Group is not exposed to the significant currency risk as the functional currency of Metalfrío Solutions Poland SP. Z.o.o., West Africa and Russian companies is Euro, Naira and Ruble, respectively. Foreign currency denominated assets and liabilities is disclosed in foreign currency risk table.

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



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

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

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

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

	30 June 2018				
	TL Equivalent (Functional Currency)	US Dollar	Euro	Ruble	Nigerian Naira
1. Trade Receivables	137.421.068	5.054.991	19.932.695	37.328.410	389.867.698
2a. Monetary Financial Assets	194.072.963	13.151.758	23.545.444	7.364.562	572.161.937
2b. Non-monetary Financial Assets	579.209	127.000	-	-	-
3. Other	-	-	-	-	-
4. CURRENT ASSETS	332.073.240	18.333.749	43.478.139	44.692.973	962.029.635
5. Trade Receivables	-	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-	-
6b. Non-monetary Financial Assets	-	-	-	-	-
7. Other	-	-	-	-	-
8. NON-CURRENT ASSETS	-	-	-	-	-
9. TOTAL ASSETS	332.073.240	18.333.749	43.478.139	44.692.973	962.029.635
10. Trade Payables	86.467.115	6.736.596	9.837.044	37.957.806	50.583.927
11. Financial Liabilities	100.515.851	-	18.932.391	-	-
12a. Monetary Other Liabilities	-	-	-	-	-
12b. Non-monetary Other Liabilities	1.369.232	-	257.898	-	-
13. SHORT-TERM LIABILITIES	188.352.198	6.736.596	29.027.333	37.957.806	50.583.927
14. Trade Payables	-	-	-	-	-
15. Financial Liabilities	327.505.698	-	61.686.450	-	-
16a. Monetary Other Liabilities	-	-	-	-	-
16b. Non-monetary Other Liabilities	-	-	-	-	-
17. LONG-TERM LIABILITIES	327.505.698	-	61.686.450	-	-
18. TOTAL LIABILITIES	515.857.896	6.736.596	90.713.782	37.957.806	50.583.927
19. Off-balance sheet derivative instruments net asset / liability position (19a-19b)	158.658.025	(135.500)	30.000.000	-	-
19a. Off-balance sheet foreign currency derivative assets	485.095.082	36.517.000	60.000.000	-	-
19b. Off-balance sheet foreign currency derivative liabilities	326.437.057	36.652.500	30.000.000	-	-
20. Net foreign currency assets / liabilities position (9-18+19)	(25.126.631)	11.461.653	(17.235.643)	6.735.166	911.445.708
21. Monetary items net foreign currency assets / liabilities (1+2a+5+6a-10-11-12a-14-15-16a)	(182.994.633)	11.470.153	(46.977.745)	6.735.166	911.445.708

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

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

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

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

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

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

b) Financial Risk Factors (cont’d)

b.3) Market risk management (cont’d)

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

Foreign currency sensitivity analysis

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

The following table details the Group’s sensitivity to a 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.

	<b>30 June 2018</b>	
	<b>Profit / Loss</b>	
	<b>20% strengthening of foreign currency</b>	<b>20% weakening of foreign currency</b>
1- US Dollar net asset / liability	10.454.632	(10.454.632)
2- Portion from US Dollar hedged (-)	-	-
<b>3- Net effect of US Dollar (1+2)</b>	<b>10.454.632</b>	<b>(10.454.632)</b>
4- Euro net asset / liability	(18.301.495)	18.301.495
5- Portion from Euro hedged (-)	-	-
<b>6- Net effect of Euro (4+5)</b>	<b>(18.301.495)</b>	<b>18.301.495</b>
7- Ruble net asset / liability	97.979	(97.979)
8- Portion from Ruble hedged (-)	-	-
<b>9- Net effect of Ruble (7+8)</b>	<b>97.979</b>	<b>(97.979)</b>
10- NGN net asset / liability	2.723.558	(2.723.558)
11- Portion from NGN hedged (-)	-	-
<b>12- Net effect of NGN (7+8)</b>	<b>2.723.558</b>	<b>(2.723.558)</b>
<b>TOTAL (3 + 6 + 9 + 12 )</b>	<b>(5.025.326)</b>	<b>5.025.326</b>

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

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

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

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

**Foreign currency sensitivity analysis (cont'd)**

	<b>31 December 2017</b>	
	<b>Profit / Loss</b>	
	<b>20% strengthening of foreign currency</b>	<b>20% weakening of foreign currency</b>
1- US Dollar net asset / liability	(6.339.899)	6.339.899
2- Portion from US Dollar hedged (-)	-	-
<b>3- Net effect of US Dollar (1+2)</b>	<b>(6.339.899)</b>	<b>6.339.899</b>
4- Euro net asset / liability	(20.352.351)	20.352.351
5- Portion from Euro hedged (-)	-	-
<b>6- Net effect of Euro (4+5)</b>	<b>(20.352.351)</b>	<b>20.352.351</b>
7- GBP net asset / liability	49.650	(49.650)
8- Portion from GBP hedged (-)	-	-
<b>9- Net effect of GBP (7+8)</b>	<b>49.650</b>	<b>(49.650)</b>
10- NGN net asset / liability	1.623.794	(1.623.794)
1- Portion from NGN hedged (-)	-	-
<b>12- Net effect of NGN (7+8)</b>	<b>1.623.794</b>	<b>(1.623.794)</b>
<b>TOTAL (3 + 6 + 9 + 12 )</b>	<b>(25.018.806)</b>	<b>25.018.806</b>

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

b) Financial Risk Factors (cont’d)

b.3) Market risk management (cont’d)

b.3.2) Interest rate risk management

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

Interest rate sensitivity analysis

		<u>30 June 2018</u>	<u>31 December 2017</u>
	<b>Instruments with Fixed Interest</b>		
Financial Assets	Time deposits with maturities less than three months	47.517.584	140.356.982
	Assets at fair value through profit or loss	99.297.947	151.146.340
Financial Liabilities		219.308.800	169.249.247
	<b>Instruments with Variable Interest</b>		
Financial Liabilities		208.712.750	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 30 June 2018 would decrease by TL 7.012.682 (31 December 2017: TL 5.642.306). Due to the effect of relevant change in exchange rate on equity without affecting profit/loss, equity would be TL 7.012.682 (31 December 2017: TL 5.642.306) lower.

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

30 June 2018	Loans and receivables (including cash and cash equivalents)	Financial assets at FVTPL	Financial liabilities at amortized cost	Carrying value	Note
<u>Financial assets</u>					
Cash and cash equivalents	126.586.962	-	-	126.586.962	31
Financial investments	-	99.297.947	-	99.297.947	27
Trade receivables	294.038.526	-	-	294.038.526	5
Trade receivables from related parties	4.249.789	-	-	4.249.789	4,5
Other receivables from related parties	617.178	-	-	617.178	4,6
Other receivables	2.349.795	-	-	2.349.795	6
<u>Financial liabilities</u>					
Financial borrowings	-	-	428.021.550	428.021.550	27
Trade payables	-	-	160.433.684	160.433.684	5
Trade payables to related parties	-	-	1.064.775	1.064.775	4,5
Other payables and liabilities (*)	-	-	6.382.945	6.382.945	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”.

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

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

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

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

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

#### Fair value of financial instruments

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

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2: the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- Level 3: the fair value of the financial assets and financial liabilities are determined where there is no observable market data.

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

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

Financial Assets / Financial Liabilities	Fair value		Fair value level
	30 June 2018	31 December 2017	
Financial investments	99.297.947	151.146.340	1
Foreign currency forward contracts	(2.297.975)	1.089.555	2



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

#### Other price risks

The Group invests in private sector bonds and bills in various countries in order to manage the excess funding that arises in certain periods. The Group performs trading transactions irrespective of 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% appreciation of market prices	10% depreciation of market prices
<b>30 June 2018</b>	4.006.592	(4.006.592)
<b>31 December 2017</b>	14.990.430	(14.990.430)

### 30. EVENTS AFTER THE REPORTING PERIOD

As per the decision of The Board of Directors of Klimasan dated 12 July 2018, the Company distributes TL 1.000.000 (gross) of dividends to shareholders in cash from extraordinary reserves and increases the capital TL 6.600.600 at total from TL 33.000.000 to TL 39.600.000. Accordingly, the Company distributes bonus shares at the rate of 20% to shareholders and the decision that the residual balance amounting to TL 6.501.757 is appropriated as extraordinary reserves is in the process of approval by the General Assembly.

Turkish Lira has been depreciated against foreign currencies, especially USD Dollar from the closing rate on 30 June 2018 to the closing rate on 13 August 2018 when the financial statements of the Group were approved (Turkish Lira depreciated against US Dollar and Euro at the rate of 50,85% and 47,53%, respectively).

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

As of 30 June 2018 and 31 December 2017 cash and cash equivalents are as following:

	30 June 2018	31 December 2017
Cash on hand	24.649	47.300
Cash at banks	126.337.994	151.611.933
<i>Time deposit with maturities less than three months</i>	<i>47.517.584</i>	<i>140.356.982</i>
<i>Demand deposits</i>	<i>78.820.410</i>	<i>11.254.951</i>
Other cash and cash equivalents	224.319	112.724
	<u>126.586.962</u>	<u>151.771.957</u>
Interest accrual related to time deposits	(31.764)	(432.357)
Cash and cash equivalents in the cash flows	<u>126.555.198</u>	<u>151.339.600</u>

As of 30 June 2018 and 31 December 2017, detail of time deposits are as follows:

Currency	Interest Rate (%)	Maturity	30 June 2018
TL	17,0- 18,50	July 2018	29.730.107
Euro	1,60 - 1,70	July 2018	17.787.477
			<u>47.517.584</u>

  

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