

**Kordsa Teknik Tekstil Anonim Őirketi  
and Its Subsidiaries**

Convenience Translation into English  
of the Consolidated Financial Statements  
As at and for the Year Ended  
31 December 2017  
With Independent Auditor's Report

(Originally issued in Turkish)

20 February 2018



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## Independent Auditor's Report

To the Board of Directors of Kordsa Teknik Tekstil Anonim Şirketi,

### A) Audit of the Consolidated Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of Kordsa Teknik Tekstil Anonim Şirketi ("the Company") and its subsidiaries (together will be referred to as "the Group"), which comprise the statement of consolidated financial position as at 31 December 2017, the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

#### *Basis for Opinion*

We conducted our audit in accordance with standards on auditing issued by the Capital Markets Board of Turkey ("CMB") and Standards on Auditing which is a component of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA") ("Standards on Auditing issued by POA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We declare that we are independent of the Group in accordance with the Code of Ethics for Auditors issued by POA ("POA's Code of Ethics") and the ethical requirements in the regulations issued by POA that are relevant to audit of consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with the POA's Code of Ethics and regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



*Key Audit Matters*

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

Revenue recognition

Refer to Note 2.5 to the consolidated financial statements for summary of significant accounting policies and significant accounting assessments, estimates and assumptions for revenue recognition.

| <u>The key audit matter</u>  | <u>How the matter was addressed in our audit</u>  |
|--|---|
| <p>The Group’s revenue is primarily generated from sales of industrial fabrics included in the structure of vehicle tires and industrial fabrics to the companies’ operates in tyre sector.</p> <p>As explained in Note 2.5, revenue is recognised over the fair value of the considered receivable which is taken on the accrual basis of the financial statement when the delivery is made, the amount of income can be reliably determined and it is probable that the Group will obtain economic benefits related to these transactions. Net revenue presented by deducting returns, discounts and commissions from sales of goods from sales of goods.</p> <p>Recognition of revenue for the accounting period in which the product is sold depends on an appropriate assessment of whether the product is associated with a sales contract. Since commercial contracts can be complex, important considerations required to be made while selecting the accounting basis for each situation.</p> <p>Recognition of revenue is designated as a key audit matter, since significant contractual obligations are required to reflect the financial statements in the period of the revenue due to the complexity of the commercial contracts.</p> | <p>We have performed the following audit procedures to be responsive to this area:</p> <ul style="list-style-type: none"> <li>- Evaluation of the effectiveness of key internal controls for accounting of revenue in consolidated financial statements.</li> <li>- Examination of transfer of risk and rewards through sales documents obtained for selected sample sales transactions and evaluation of appropriateness of revenue to accounting policies and taking of financial statements in the appropriate financial reporting period.</li> <li>- Evaluating the timing of accounting of financial statements for the different shipment arrangements by examining the terms of trade and shipping conditions with contracts made with customers.</li> <li>- Testing trade receivables from third parties by obtaining confirmation letter for selected samples and reconciling to the financial statements.</li> <li>- Performing analytical reviews to determine the existence of unusual transactions.</li> <li>- Testing of the subsequent sales returns transactions after the reporting period of financial statements in the appropriate financial reporting period by selecting the samples from subsequent sales returns after the reporting period and using substantive testing procedures.</li> <li>- Evaluation of the journal entries that the Group has accounted for during the year.</li> </ul> |



### *Other Matters*

As explained in Note 2.1 to the consolidated financial statements, USD amounts shown in the accompanying consolidated financial statements have been translated from Turkish Lira, as a matter of arithmetic computation only, at the official USD bid rates announced by the Central Bank of Republic of Turkey ("CBRT") at 31 December 2017 for the consolidated statement of financial position; and the official USD average CBRT bid rates of the year 2017 for the consolidated statement of profit or loss, consolidated statement of other comprehensive income and consolidated statement of cash flows, and the do not form part of these consolidated financial statements.

The consolidated financial statements of the Group as at and for the year ended 31 December 2016, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 20 February 2017.

### *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

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

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

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

### *Independent Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Responsibilities of the independent auditors in an audit are as follows:

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

As part of an audit in accordance with the standards on auditing issued by the CMB and Standards on Auditing issued by POA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:



- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
  - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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



### **Board of Directors' Responsibility for the Annual Report**

In accordance with the Articles 514 and 516 of the Turkish Commercial Code Numbered. 6102 ("TCC") and Regulation on the Principles and Procedures Concerning the Preparation of and Publishing Annual Reports by the Group ("Regulation") published in the Official Journal dated 1 November 2006 and No. 26333, the Group management is responsible for the following regarding the annual report:

- a) The Group's management prepares its annual report within the first three months following the date of statement of financial position and submits it to the general meeting.
- b) The Group's management prepares its annual report in such a way that it presents accurately, completely, directly, true and fairly the flow of annual operations and consolidated financial position of the Group. In this report, the financial position of the Group is assessed in accordance with the Group's consolidated financial statements. The annual report shall also clearly state the details about the Group's development and risks that might be encountered. The assessment of the board of directors on these matters is included in the report.
- c) The annual report also includes:
  - Significant events after the reporting period,
  - The Group's research and development activities.
  - Employee benefits such as wages, premiums and bonuses paid to board members and key management personnel, appropriations, travel, accommodation and representation expenses, cash and cash facilities, insurance and similar guarantees.

When preparing the annual report, the board of directors also consider the related regulations issued by the Ministry of Customs and Trade and related institutions.

### **Auditor's Responsibility for the Audit of the Annual Report**

Our objective is to express an opinion on whether the consolidated financial information included in the annual report and analysis of the Board of Directors in relation to the consolidated financial position of the Group are consistent with the audited consolidated financial statements of the Group and the information obtained during the audit and give a true and fair view and form a report that include this opinion in accordance with the TCC and the Regulation.

We conducted our audit in accordance with Standards on Auditing issued by POA. Those standards are required that compliance with ethical requirements and planning of audit to obtain reasonable assurance on whether the consolidated financial information included in the annual report and analysis of the Board of Directors for the consolidated financial position of the Group are consistent with the consolidated financial statements and the information obtained during the audit and provides a fair presentation.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

A member firm of KPMG International Cooperative



Ruşen Fikret Selamet, SMMM  
Partner

20 February 2018

İstanbul, Turkey

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**Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries**  
**Consolidated Statement of Financial Position as at 31 December 2017**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

| Assets   | Notes | 31 December<br>2017 USD (*) | 31 December<br>2016 USD (*) | Audited<br>31 December<br>2017 | Audited<br>31 December<br>2016 |
|--|-------|-----------------------------|-----------------------------|--------------------------------|--------------------------------|
| <b>Current assets</b>                              |       |                             |                             |                                |                                |
| Cash and cash equivalents                          | 4     | 4.125.741                   | 10.962.277                  | 15.561.882                     | 38.578.445                     |
| Financial investments                              |       | 32.179                      | 32.179                      | 121.377                        | 113.245                        |
| <i>Investments in equity securities</i>            |       | 32.179                      | 32.179                      | 121.377                        | 113.245                        |
| Trade receivables                                  |       | 128.183.670                 | 105.768.444                 | 483.495.983                    | 372.220.309                    |
| <i>Due from related parties</i>                    | 26    | 7.401.650                   | 5.951.576                   | 27.918.285                     | 20.944.786                     |
| <i>Due from third parties</i>                      | 7     | 120.782.020                 | 99.816.868                  | 455.577.698                    | 351.275.523                    |
| Other receivables                                  |       | 1.453.590                   | 3.236.655                   | 5.482.795                      | 11.390.436                     |
| <i>Due from third parties</i>                      | 8     | 1.453.590                   | 3.236.655                   | 5.482.795                      | 11.390.436                     |
| Derivatives  |       | 1.562.428                   | 347.100                     | 5.893.324                      | 1.221.515                      |
| <i>Derivative financial assets</i>                 | 28    | 1.562.428                   | 347.100                     | 5.893.324                      | 1.221.515                      |
| Inventories  | 9     | 155.174.011                 | 152.700.519                 | 585.300.852                    | 537.383.667                    |
| Prepayments  |       | 5.182.764                   | 5.487.597                   | 19.548.866                     | 19.311.952                     |
| <i>Prepayments from third parties</i>              | 10    | 5.182.764                   | 5.487.597                   | 19.548.866                     | 19.311.952                     |
| Current tax assets                                 | 24    | 1.453.908                   | --                          | 5.483.994                      | --                             |
| Other current assets                               | 17    | 17.238.592                  | 12.259.190                  | 65.022.246                     | 43.142.543                     |
| <i>Other current assets from third parties</i>     |       | 17.238.592                  | 12.259.190                  | 65.022.246                     | 43.142.543                     |
| <b>Subtotal</b>                                    |       | <b>314.406.882</b>          | <b>290.793.962</b>          | <b>1.185.911.319</b>           | <b>1.023.362.112</b>           |
| Assets held for sale                               | 30    | 2.967.943                   | 6.189.015                   | 11.194.785                     | 21.780.383                     |
| <b>Total current assets</b>                        |       | <b>317.374.825</b>          | <b>296.982.978</b>          | <b>1.197.106.104</b>           | <b>1.045.142.495</b>           |
| <b>Non-current assets</b>                          |       |                             |                             |                                |                                |
| Financial investments                              |       | 108.991                     | 109.710                     | 411.103                        | 386.091                        |
| <i>Investments in equity securities</i>            | 5     | 108.991                     | 109.710                     | 411.103                        | 386.091                        |
| Other receivables                                  |       | 8.113.581                   | 5.790.726                   | 30.603.616                     | 20.378.723                     |
| <i>Due from third parties</i>                      | 8     | 8.113.581                   | 5.790.726                   | 30.603.616                     | 20.378.723                     |
| Investment properties                              | 13    | 12.471.479                  | 11.401.373                  | 47.041.172                     | 40.123.712                     |
| Property, plant and equipment                      | 11    | 378.253.557                 | 365.283.627                 | 1.426.734.593                  | 1.285.506.141                  |
| Intangible assets                                  |       | 21.878.005                  | 21.640.547                  | 82.521.648                     | 76.157.412                     |
| <i>Goodwill</i>                                    | 14    | 12.088.117                  | 12.956.117                  | 45.595.167                     | 45.595.167                     |
| <i>Other intangible assets</i>                     | 12    | 9.789.889                   | 8.684.430                   | 36.926.481                     | 30.562.245                     |
| Prepayments  |       | 542.982                     | 1.930.497                   | 2.048.075                      | 6.793.806                      |
| <i>Prepayments from third parties</i>              | 10    | 542.982                     | 1.930.497                   | 2.048.075                      | 6.793.806                      |
| Deferred tax assets                                | 24    | 10.184.729                  | 10.008.859                  | 38.415.780                     | 35.223.175                     |
| Other non-current assets                           | 17    | 11.047.826                  | 9.650.648                   | 41.671.295                     | 33.962.562                     |
| <i>Other non-current assets from third parties</i> |       | 11.047.826                  | 9.650.648                   | 41.671.295                     | 33.962.562                     |
| <b>Total non-current assets</b>                    |       | <b>442.601.151</b>          | <b>425.815.987</b>          | <b>1.669.447.282</b>           | <b>1.498.531.622</b>           |
| <b>Total assets</b>                                |       | <b>759.975.977</b>          | <b>722.798.965</b>          | <b>2.866.553.386</b>           | <b>2.543.674.117</b>           |

(\*) US Dollar (“USD”) amounts presented above have been translated from Turkish Lira (“TL”) for convenience purposes only, at the official TL bid rate announced by the Central Bank of Republic of Turkey (“CBRT”) at 31 December 2017, and therefore do not form part of these consolidated financial statements (Note 2.1).

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



**Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries**  
**Consolidated Statement of Financial Position as at 31 December 2017**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

|   | Notes | 31 December<br>2017 USD (*) | 31 December<br>2016 USD (*) | Audited<br>31 December<br>2017 | Audited<br>31 December<br>2016 |
|---|-------|-----------------------------|-----------------------------|--------------------------------|--------------------------------|
| <b>Liabilities</b>  |       |                             |                             |                                |                                |
| <b>Short term liabilities</b>   |       |                             |                             |                                |                                |
| Short term loans and borrowings   | 6     | 135.655.486                 | 99.977.967                  | 511.678.928                    | 351.842.461                    |
| Short term portion of   |       |                             |                             |                                |                                |
| long term loans and borrowings  | 6     | 5.120.553                   | 6.331.727                   | 19.314.214                     | 22.282.612                     |
| Trade payables  |       | 83.327.241                  | 80.766.973                  | 314.302.020                    | 284.235.131                    |
| <i>Due to related parties</i>   | 7     | 2.105.493                   | 1.839.414                   | 7.941.709                      | 6.473.265                      |
| <i>Due to third parties</i>   | 26    | 81.221.748                  | 78.927.559                  | 306.360.311                    | 277.761.866                    |
| Payables related to employee benefits   | 16    | 2.967.969                   | 1.489.234                   | 11.194.881                     | 5.240.913                      |
| Other payables  |       | 3.124.051                   | 3.817.543                   | 11.783.607                     | 13.434.699                     |
| <i>Due to third parties</i>   | 8     | 3.124.051                   | 3.817.543                   | 11.783.607                     | 13.434.699                     |
| Deferred revenue  |       | 1.907.674                   | 1.974.550                   | 7.195.555                      | 6.948.837                      |
| <i>Deferred revenue to third parties</i>  | 10    | 1.907.674                   | 1.974.550                   | 7.195.555                      | 6.948.837                      |
| Current tax liabilities   | 24    | --                          | 1.111.516                   | --                             | 3.911.647                      |
| Short term provisions   |       | 6.272.913                   | 6.600.977                   | 23.660.799                     | 23.230.157                     |
| <i>Short term employee benefits</i>   | 16    | 6.260.171                   | 6.587.320                   | 23.612.739                     | 23.182.097                     |
| <i>Other short term provisions</i>  |       | 12.742                      | 13.657                      | 48.060                         | 48.060                         |
| Other short term liabilities  | 17    | 6.608.813                   | 5.129.135                   | 24.927.783                     | 18.050.451                     |
| <i>Other short term liabilities to third parties</i>                                |       | 6.608.813                   | 5.129.135                   | 24.927.783                     | 18.050.451                     |
| <b>Subtotal</b>   |       | <b>244.984.699</b>          | <b>207.199.622</b>          | <b>924.057.787</b>             | <b>729.176.908</b>             |
| Liabilities directly associated with the assets held for sale                       | 30    | 1.395.017                   | 3.329.789                   | 5.261.866                      | 11.718.193                     |
| <b>Total short term liabilities</b>   |       | <b>246.379.717</b>          | <b>210.529.410</b>          | <b>929.319.653</b>             | <b>740.895.101</b>             |
| <b>Long term liabilities</b>  |       |                             |                             |                                |                                |
| Long term loans and borrowings  | 6     | 26.859.377                  | 45.715.600                  | 101.310.884                    | 160.882.339                    |
| Other payables  |       | 4.466.646                   | 4.021.062                   | 16.847.743                     | 14.150.921                     |
| <i>Due to third parties</i>   | 8     | 4.466.646                   | 4.021.062                   | 16.847.743                     | 14.150.921                     |
| Long term provisions  |       | 16.244.682                  | 14.699.236                  | 61.273.315                     | 51.729.552                     |
| <i>Long term employee benefits</i>  | 16    | 15.862.871                  | 14.699.236                  | 59.833.164                     | 51.729.552                     |
| <i>Other long term provisions</i>   |       | 381.811                     | --                          | 1.440.151                      | --                             |
| Deferred tax liabilities  | 24    | 29.117.929                  | 29.648.302                  | 109.829.915                    | 104.338.305                    |
| <b>Total long term liabilities</b>  |       | <b>76.688.634</b>           | <b>94.084.200</b>           | <b>289.261.857</b>             | <b>331.101.117</b>             |
| <b>Total liabilities</b>  |       | <b>323.068.351</b>          | <b>304.613.610</b>          | <b>1.218.581.510</b>           | <b>1.071.996.218</b>           |
| <b>Shareholder's Equity</b>   |       |                             |                             |                                |                                |
| <b>Equity attributable to owners of the Company</b>                                 |       |                             |                             |                                |                                |
| Share capital   | 18    | 338.543.168                 | 327.951.621                 | 1.276.950.976                  | 1.154.127.343                  |
| Share premium   |       | 51.573.233                  | 55.276.505                  | 194.529.076                    | 194.529.076                    |
| Share premium   |       | 16.451.352                  | 17.632.660                  | 62.052.856                     | 62.052.856                     |
| Other comprehensive income that is not or may be not reclassified to profit or loss |       | (2.346.850)                 | (1.872.503)                 | (8.852.082)                    | (6.589.713)                    |
| <i>Revaluation and Remeasurement Gain /(Loss)</i>                                   |       | (2.346.850)                 | (1.872.503)                 | (8.852.082)                    | (6.589.713)                    |
| <i>Defined Benefit Plans Remeasurement Fund</i>                                     |       | (2.346.850)                 | (1.872.503)                 | (8.852.082)                    | (6.589.713)                    |
| Other comprehensive income that is or may be reclassified to profit or loss         |       | 76.620.769                  | 77.108.332                  | 289.005.880                    | 271.359.642                    |
| <i>Currency Translation Difference</i>  |       | 76.689.306                  | 76.904.186                  | 289.264.396                    | 270.641.212                    |
| <i>Gain/Loss on Hedge</i>   | 18    | 3.084                       | 280.911                     | 11.635                         | 988.581                        |
| <i>Cash Flow Hedge Gains/Loss</i>   |       | 3.084                       | 280.911                     | 11.635                         | 988.581                        |
| <i>Revaluation and Reclassification Gain /(Loss)</i>                                | 18    | (71.621)                    | (76.765)                    | (270.151)                      | (270.151)                      |
| <i>Other Financial Assets Fair Value</i>  |       | (71.621)                    | (76.765)                    | (270.151)                      | (270.151)                      |
| Restricted reserves   | 18    | 14.567.817                  | 13.288.053                  | 54.948.350                     | 46.763.317                     |
| Retained earnings   | 18    | 137.905.253                 | 125.861.379                 | 520.164.823                    | 442.931.364                    |
| Profit for the period   | 27    | 43.771.595                  | 40.657.195                  | 165.102.073                    | 143.080.801                    |
| <b>Total non-controlling interests</b>  |       | <b>98.364.458</b>           | <b>90.233.735</b>           | <b>371.020.900</b>             | <b>317.550.556</b>             |
| <b>Total equity</b>   |       | <b>436.907.626</b>          | <b>418.185.355</b>          | <b>1.647.971.876</b>           | <b>1.471.677.899</b>           |
| <b>Total equity and liabilities</b>   |       | <b>759.975.977</b>          | <b>722.798.965</b>          | <b>2.866.553.386</b>           | <b>2.543.674.117</b>           |

(\*) USD amounts presented above have been translated from TL for convenience purposes only, at the official TL bid rate announced by the CBRT at 31 December 2017, and therefore do not form part of these consolidated financial statements (Note 2.1).

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

## Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries

### Consolidated Statement of Profit or Loss

#### For the Year Ended 31 December 2017

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

|  | Notes | 1 January-<br>31 December<br>2017 USD (*) | 1 January-<br>31 December<br>2016 USD (*) | Audited<br>1 January-<br>31 December<br>2017 | Audited<br>1 January-<br>31 December<br>2016 |
|--|-------|---|---|--|--|
| <b>PROFIT OR LOSS</b>  |       |   |   |  |  |
| Revenue  | 19    | 681.296.605                               | 632.321.117                               | 2.485.165.623                                | 1.908.345.131                                |
| Cost of sales  | 19,20 | (558.073.899)                             | (500.931.421)                             | (2.035.686.160)                              | (1.511.811.029)                              |
| <b>Gross profit</b>  |       | <b>123.222.706</b>                        | <b>131.389.696</b>                        | <b>449.479.463</b>                           | <b>396.534.102</b>                           |
| General and administrative expenses                                | 20    | (29.558.317)                              | (30.555.773)                              | (107.819.874)                                | (92.217.323)                                 |
| Selling and marketing expenses                                     | 20    | (27.388.330)                              | (26.518.074)                              | (99.904.410)                                 | (80.031.547)                                 |
| Research and development expenses                                  | 20    | (1.511.307)                               | (1.240.619)                               | (5.512.793)                                  | (3.744.189)                                  |
| Other income from operating activities                             | 21    | 41.803.610                                | 79.364.634                                | 152.487.030                                  | 239.522.465                                  |
| Other expense from operating activities                            | 21    | (30.441.437)                              | (72.821.038)                              | (111.041.230)                                | (219.773.894)                                |
| <b>Operating profit</b>  |       | <b>76.126.925</b>                         | <b>79.618.825</b>                         | <b>277.688.186</b>                           | <b>240.289.614</b>                           |
| Gains from investing activities                                    | 22    | 5.740.906                                 | 4.859.197                                 | 20.941.102                                   | 14.665.058                                   |
| Losses from investing activities                                   | 22    | (1.043.031)                               | (1.378.495)                               | (3.804.666)                                  | (4.160.298)                                  |
| <b>Operating profit before finance costs</b>                       |       | <b>80.824.800</b>                         | <b>83.099.528</b>                         | <b>294.824.622</b>                           | <b>250.794.374</b>                           |
| Finance income   | 23    | 1.581.978                                 | --  | 5.770.580                                    | --   |
| Finance expense  | 23    | (15.364.947)                              | (8.913.165)                               | (56.046.716)                                 | (26.899.931)                                 |
| <b>Profit before tax from continuing operations</b>                |       | <b>67.041.831</b>                         | <b>74.186.363</b>                         | <b>244.548.486</b>                           | <b>223.894.443</b>                           |
| Tax (expense)/benefit from continuing operations                   |       | (9.822.301)                               | (12.070.657)                              | (35.828.809)                                 | (36.429.242)                                 |
| <i>Current tax expense</i>   | 24    | (10.125.137)                              | (9.207.357)                               | (36.933.461)                                 | (27.787.803)                                 |
| <i>Deferred tax benefit/ (charge)</i>                              | 24    | 302.835                                   | (2.863.300)                               | 1.104.652                                    | (8.641.439)                                  |
| <b>Profit for the year from continuing operations</b>              |       | <b>57.219.529</b>                         | <b>62.115.706</b>                         | <b>208.719.677</b>                           | <b>187.465.201</b>                           |
| <b>Net profit/(loss) for the year from discontinued operations</b> | 30    | <b>960.425</b>                            | <b>(3.098.850)</b>                        | <b>3.503.342</b>                             | <b>(9.352.330)</b>                           |
| <b>Profit for the year</b>   |       | <b>58.179.954</b>                         | <b>59.016.856</b>                         | <b>212.223.019</b>                           | <b>178.112.871</b>                           |
| <b>Profit/(Loss) Attributable to:</b>                              |       |   |   |  |  |
| - Non-Controlling Interests  |       | 12.917.988                                | 11.607.710                                | 47.120.946                                   | 35.032.070                                   |
| - Owners of the Company  |       | 45.261.966                                | 47.409.145                                | 165.102.073                                  | 143.080.801                                  |
| Earnings (Loss) per share;   |       | 2,33                                      | 2,44                                      | 8,49   | 7,36   |
| <i>Earnings/(losses) per share from continuing operations</i>      | 25    | 2,30                                      | 2,60                                      | 8,40   | 7,84   |
| <i>Earnings/(losses) per share from discontinuing operations</i>   | 25    | 0,02                                      | (0,16)                                    | 0,09   | (0,48)                                       |
| <i>Earnings / (losses) per diluted shares from operations</i>      | 25    | 2,33                                      | 2,44                                      | 8,49   | 7,36   |

(\*) USD amounts presented above have been translated from TL for convenience purposes only, at the official USD average CBRT bid rates for the year ended 31 December 2017, and therefore do not form part of these consolidated financial statements (Note 2.1).

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

**Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries**  
**Consolidated Statement of Other Comprehensive Income**  
**For the Year Ended 31 December 2017**

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

|   | Notes | 1 January-<br>31 December<br>2017 USD (*) | 1 January-<br>31 December<br>2016 USD (*) | <i>Audited</i><br>1 January-<br>31 December<br>2017 | <i>Audited</i><br>1 January-<br>31 December<br>2016 |
|---|-------|---|---|---|---|
| <b>Profit for the year</b>  |       | <b>58.179.954</b>                         | <b>59.016.856</b>                         | <b>212.223.019</b>                                  | <b>178.112.871</b>                                  |
| <b>OTHER COMPREHENSIVE INCOME</b>   |       |   |   |   |   |
| <b>Items that will not be reclassified to profit or loss</b>                |       |   |   |   |   |
| Defined benefit plans remeasurement fund, net off tax                       |       | (620.218)                                 | (14.253)                                  | (2.262.369)   | (43.017)  |
|   |       | (620.218)                                 | (14.253)                                  | (2.262.369)   | (43.017)  |
| <b>Items that are or may be reclassified subsequently to profit or loss</b> |       |   |   |   |   |
| Foreign currency translation differences, net off tax                       |       | 13.226.906                                | 58.039.491                                | 48.247.784  | 175.163.185   |
| Hedging reserve gains/(losses)  |       | (334.800)                                 | (3.542.147)                               | (1.221.249)   | (10.690.199)  |
| Tax (expense) related to other comprehensive income items                   |       | 66.974                                    | 708.536                                   | 244.303   | 2.138.363   |
| <i>Deferred tax income</i>  | 18    | 66.974                                    | 708.536                                   | 244.303   | 2.138.363   |
| <b>Total other comprehensive income</b>                                     |       | <b>12.338.862</b>                         | <b>55.191.628</b>                         | <b>45.008.469</b>                                   | <b>166.568.332</b>                                  |
| <b>Total comprehensive income</b>   |       | <b>70.518.817</b>                         | <b>114.208.483</b>                        | <b>257.231.488</b>                                  | <b>344.681.203</b>                                  |
| <b>Total comprehensive income attributable to:</b>                          |       |   |   |   |   |
| Non-controlling interests   |       | 21.039.435                                | 27.625.019                                | 76.745.546  | 83.372.308  |
| Owners of the Company   |       | 49.479.382                                | 86.583.464                                | 180.485.942   | 261.308.895   |

(\*) USD amounts presented above have been translated from TL for convenience purposes only, at the official USD average CBRT bid rates for the year ended 31 December 2017, and therefore do not form part of these consolidated financial statements (Note 2.1).

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

**Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries**  
**Consolidated Statement of Changes in Equity**  
**For the Year Ended 31 December 2017**

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

|   | Share Capital      | Share Premium     | Other Comprehensive Income or Expenses That Will Not Be Reclassified to Profit or Loss | Other Comprehensive Income or Expenses That Will Be Reclassified to Profit or Loss |                                    |  | Restricted reserves appropriate from profit | Retained Earnings  |                         |  | Total Equity       |                           |
|---|--------------------|-------------------|--|--|------------------------------------|--|---|--------------------|-------------------------|--|--------------------|---------------------------|
|   |                    |                   | Revaluation and Remeasurement Gain/(Loss)  | Currency Translation Differences   | Gains/(Losses) on Hedging Reserve  | Gains/(Losses) on Revaluation and Remeasurements |   | Prior Years Profit | Net Income for the Year | Equity Attributable to Owners of the Company |                    | Non-Controlling Interests |
|   |                    |                   | Defined Plans Remeasurement Fund   |  | Gains/(Losses) on Cash Flow Hedges | Gains/(Losses) on Other Revaluations             |   |                    |                         |  |                    |                           |
| <b>Balance at 1 January 2016</b>          | <b>194.529.076</b> | <b>62.052.856</b> | <b>(6.546.696)</b>   | <b>156.866.115</b>   | <b>9.540.417</b>                   | <b>(270.151)</b>                                 | <b>30.757.308</b>                           | <b>420.301.726</b> | <b>99.250.907</b>       | <b>966.481.558</b>                           | <b>249.537.096</b> | <b>1.216.018.654</b>      |
| Transfer                                  | --                 | --                | --   | --   | --                                 | --   | 16.006.009                                  | 83.244.898         | (99.250.907)            | -  | -                  | -                         |
| Other Comprehensive Income                | -                  | -                 | (43.017)   | 126.822.947  | (8.551.836)                        | -  | -   | -                  | 143.080.801             | 261.308.895                                  | 83.372.308         | 344.681.203               |
| Dividend Paid (*)                         | -                  | -                 | -  | -  | -                                  | -  | -   | (60.615.260)       | -                       | (60.615.260)                                 | (15.358.848)       | (75.974.108)              |
| Impact of liquidation of subsidiary (***) | -                  | -                 | -  | (13.047.850)   | -                                  | -  | -   | -                  | -                       | (13.047.850)                                 | -                  | (13.047.850)              |
| <b>Balance at 31 Decemer 2016</b>         | <b>194.529.076</b> | <b>62.052.856</b> | <b>(6.589.713)</b>   | <b>270.641.212</b>   | <b>988.581</b>                     | <b>(270.151)</b>                                 | <b>46.763.317</b>                           | <b>442.931.364</b> | <b>143.080.801</b>      | <b>1.154.127.343</b>                         | <b>317.550.556</b> | <b>1.471.677.899</b>      |
| <b>Balance at 01 January 2017</b>         | <b>194.529.076</b> | <b>62.052.856</b> | <b>(6.589.713)</b>   | <b>270.641.212</b>   | <b>988.581</b>                     | <b>(270.151)</b>                                 | <b>46.763.317</b>                           | <b>442.931.364</b> | <b>143.080.801</b>      | <b>1.154.127.343</b>                         | <b>317.550.556</b> | <b>1.471.677.899</b>      |
| Transfer                                  | -                  | -                 | -  | -  | -                                  | -  | 8.185.033                                   | 134.895.768        | (143.080.801)           | -  | -                  | -                         |
| Other Comprehensive Income                | -                  | -                 | (2.262.369)  | 18.623.184   | (976.946)                          | -  | -   | -                  | 165.102.073             | 180.485.942                                  | 76.745.546         | 257.231.488               |
| Dividend Paid (**)                        | -                  | -                 | -  | -  | -                                  | -  | -   | (57.662.309)       | -                       | (57.662.309)                                 | (23.275.202)       | (80.937.511)              |
| <b>Balance at 31 Decemer 2017</b>         | <b>194.529.076</b> | <b>62.052.856</b> | <b>(8.852.082)</b>   | <b>289.264.396</b>   | <b>11.635</b>                      | <b>(270.151)</b>                                 | <b>54.948.350</b>                           | <b>519.164.823</b> | <b>165.102.073</b>      | <b>1.276.950.976</b>                         | <b>371.020.900</b> | <b>1.647.971.876</b>      |

(\*) In accordance with the Ordinary General Assembly Meeting for 2015 of the Group held on 23 March 2016, the company distributed a dividend of 31.16% gross and 26.486% net profit to shareholders representing TL 194.529.076 of the capital in accordance with their legal status, amounting to TL 60.615.260 (gross TL per share 0.3116, net TL per share 0.26486). In accordance with the resolution, the dividend payment was made after 4 April 2016.

(\*\*) In accordance with the Ordinary General Assembly Meeting for 2016 of the Group held on 27 March 2017 the Company distributed a dividend of 29.642% gross and 25.1957% net profit to shareholders representing TL 194.529.076 of the capital in accordance with their legal status, amounting to TL 57.662.309 (gross TL per share 0,2964, net TL per share 0,2520). In accordance with the resolution, the dividend payment was made after 10 April 2017.

(\*\*\*) The Cumulative Translation Adjustment of TL 13.047.850, which is calculated in the consolidated financial statements on the basis of Interkordsa GmbH and kept under equity, is reclassified to the current year profit.

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

**Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended 31 December 2017**  
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

| Notes   | 1 January-<br>31 December<br>2017 USD (*) | 1 January-<br>31 December<br>2016 USD (*) | Audited<br>1 January-<br>31 December 2017 | Audited<br>1 January-<br>31 December 2016 |
|---|---|---|---|---|
| <b>A.CASH FLOWS FROM (USED IN) / OPERATING ACTIVITIES</b>   | <b>50.242.422</b>                         | <b>90.011.247</b>                         | <b>183.269.281</b>                        | <b>271.653.943</b>                        |
| <b>Profit for the period</b>  | <b>58.179.954</b>                         | <b>59.016.856</b>                         | <b>212.223.019</b>                        | <b>178.112.871</b>                        |
| Profit/(loss) for the period from continuing operations   | 57.219.529                                | 62.115.706                                | 208.719.677                               | 187.465.201                               |
| Profit/(loss) from discontinuing operations   | 960.425                                   | (3.098.850)                               | 3.503.342                                 | (9.352.330)                               |
| <b>Adjustments to reconcile profit/(loss) for the period</b>  | <b>46.486.420</b>                         | <b>52.908.632</b>                         | <b>169.568.514</b>                        | <b>159.678.251</b>                        |
| Adjustments related to depreciation and amortisation  | 11,12 28.275.710                          | 26.278.732                                | 103.141.306                               | 79.309.214                                |
| Adjustments related to provisions for (reversal) of impairment  | (1.000.490)                               | 3.825.442                                 | (3.649.489)                               | 11.545.184                                |
| Adjustments related to provision for (reversal) of doubtful receivables   | 21 --                                     | 2.110.045                                 | --  | 6.368.116                                 |
| Adjustments related to provision for (reversal) of inventory allowances   | 9 (1.000.490)                             | 614.212                                   | (3.649.489)                               | 1.853.693                                 |
| Adjustments related to provision for (reversal) of impairment of fixed assets   | 11 --                                     | 1.101.185                                 | --  | 3.323.375                                 |
| Adjustments related to provisions   | 7.921.012                                 | 8.709.615                                 | 28.893.474                                | 26.285.618                                |
| Adjustments related to provision for (reversal) of employee retirement benefit provision                                | 16,26 7.944.985                           | 8.773.085                                 | 28.980.921                                | 26.326.272                                |
| Adjustments related to provision for (reversal) of other provisions   | (23.973)                                  | (13.471)                                  | (87.447)                                  | (40.654)                                  |
| Adjustments related to interest (income)/expense  | 6.300.157                                 | 3.658.768                                 | 22.981.081                                | 11.042.163                                |
| Adjustments related to interest income  | 22 (662.699)                              | (1.305.710)                               | (2.417.327)                               | (3.940.634)                               |
| Adjustments related to interest expense   | 23 8.619.265                              | 5.907.617                                 | 31.440.493                                | 17.829.187                                |
| Adjustments related to unrealized finance expenses on credit purchases  | 21 (2.079.792)                            | 1.410.810                                 | 7.586.459                                 | 4.257.826                                 |
| Adjustments related to unrealized finance income on credit sales  | 21 (3.736.202)                            | (2.353.948)                               | (13.628.544)                              | (7.104.216)                               |
| Adjustments related to unrealized currency translation difference   | 815.344                                   | 509.208                                   | 2.974.131                                 | 1.536.789                                 |
| Adjustments related to fair value changes   | (4.562.985)                               | (1.671.529)                               | (16.644.401)                              | (5.044.675)                               |
| Adjustments related to fair value losses/(gains) of investment properties   | 13 (2.950.547)                            | (1.702.698)                               | (10.762.712)                              | (5.138.742)                               |
| Adjustments related to fair value losses/(gains) of derivatives   | (1.612.438)                               | 31.169                                    | (5.881.689)                               | 94.067                                    |
| Adjustments related to (increase)/decrease in current year tax  | 24 9.822.301                              | 12.070.656                                | 35.828.809                                | 36.429.241                                |
| Adjustments related to losses/(gains) disposal of non-current assets  | (1.084.628)                               | (472.261)                                 | (3.956.397)                               | (1.425.283)                               |
| Adjustments related to losses/(gains) disposal of tangible assets   | 22 (1.084.628)                            | (472.261)                                 | (3.956.397)                               | (1.425.283)                               |
| <b>Changes in working capital</b>   | <b>(54.423.953)</b>                       | <b>(21.914.241)</b>                       | <b>(198.522.253)</b>                      | <b>(66.137.179)</b>                       |
| Adjustments related to (increase)/decrease in trade receivables   | (30.937.223)                              | (28.482.074)                              | (112.849.708)                             | (85.958.900)                              |
| Adjustments related to (increase)/decrease in other trade receivables   | (8.326.526)                               | (6.730.276)                               | (30.372.668)                              | (20.311.974)                              |
| Adjustments related to (increase)/decrease in derivatives   | (1.370.400)                               | 3.757.168                                 | (4.998.809)                               | 11.339.134                                |
| Adjustments related to (increase)/decrease in inventories   | (12.424.072)                              | (38.888.749)                              | (45.319.289)                              | (117.366.244)                             |
| Adjustments related to (increase)/decrease in prepaid expenses  | 1.459.803                                 | (4.865.893)                               | 5.324.925                                 | (14.685.266)                              |
| Adjustments related to (increase)/decrease in trade payables  | 11.978.900                                | 39.520.152                                | 43.695.433                                | 119.271.820                               |
| Adjustments related to (increase)/decrease in retirement pay and employee benefit obligation                            | 1.750.311                                 | 3.100.815                                 | 6.384.610                                 | 9.358.259                                 |
| Adjustments related to (increase)/decrease in other trade payables  | 1.134.132                                 | 1.810.337                                 | 4.136.973                                 | 5.463.597                                 |
| Adjustments related to (increase)/decrease in deferred income   | 67.637                                    | 2.178.148                                 | 246.719                                   | 6.573.651                                 |
| Adjustments related to other increase/(decrease) in working capital   | (451.593)                                 | 1.615.301                                 | (1.647.274)                               | 4.874.978                                 |
| Decrease/(Increase) in other assets from operating activities   | (2.676.583)                               | 1.933.433                                 | (9.763.373)                               | 5.835.101                                 |
| Increase/(Decrease) in other liabilities from operating activities  | 2.224.991                                 | (318.132)                                 | 8.116.099                                 | (960.123)                                 |
| Payments related to provision of employee benefits  | 16 (7.239.446)                            | (6.312.454)                               | (26.407.328)                              | (19.050.985)                              |
| Income tax returns/(payments)   | 24 (11.197.497)                           | (7.911.251)                               | (40.845.108)                              | (23.876.156)                              |
| Net cash flows related to discontinuing operations  | 1.132.020                                 | 19.294.535                                | 4.129.271                                 | 58.230.907                                |
| <b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>  | <b>(49.469.753)</b>                       | <b>(44.260.245)</b>                       | <b>(180.450.819)</b>                      | <b>(133.577.418)</b>                      |
| Proceeds from sales of property, plant and equipment  | 3.520.733                                 | 1.422.771                                 | 12.842.578                                | 4.293.923                                 |
| Proceeds from sales of property, plant and equipment and intangible assets  | 11,12 (53.653.185)                        | (46.988.726)                              | (195.710.724)                             | (141.811.975)                             |
| Interest received   | 22 662.699                                | 1.305.710                                 | 2.417.327                                 | 3.940.634                                 |
| <b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>  | <b>(4.879.815)</b>                        | <b>(37.951.207)</b>                       | <b>(17.800.100)</b>                       | <b>(114.536.742)</b>                      |
| Proceeds from borrowings  | 25.858.070                                | --  | 94.322.483                                | --  |
| Cash outflows for repayment of borrowings   | --  | (6.785.806)                               | --  | (20.479.561)                              |
| Cash inflows/(outflows) from factoring transactions   | 70.022                                    | (84.024)                                  | 255.421                                   | (253.583)                                 |
| Dividend paid   | (15.807.854)                              | (20.084.680)                              | (57.662.309)                              | (60.615.563)                              |
| Interest paid   | 22 (8.619.265)                            | (5.907.617)                               | (31.440.493)                              | (17.829.187)                              |
| Cash outflow for dividend paid to non-controlling interest and other cash outflows                                      | (6.380.788)                               | (5.089.082)                               | (23.275.202)                              | (15.358.848)                              |
| <b>NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE CURRENCY TRANSLATION CONVERSION DIFFERENCES (A+B+C)</b> | <b>(4.107.146)</b>                        | <b>7.799.796</b>                          | <b>(14.981.638)</b>                       | <b>23.539.783</b>                         |
| <b>D. EFFECT OF CURRENCY TRANSLATION DIFFERENCES CASH AND CASH EQUIVALENTS</b>  | <b>(2.202.737)</b>                        | <b>(909.486)</b>                          | <b>(8.034.925)</b>                        | <b>(2.744.829)</b>                        |
| <b>NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)</b>  | <b>(6.309.884)</b>                        | <b>6.890.309</b>                          | <b>(23.016.563)</b>                       | <b>20.794.954</b>                         |
| <b>E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>  | <b>10.576.101</b>                         | <b>5.892.475</b>                          | <b>38.578.445</b>                         | <b>17.783.491</b>                         |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>   | <b>4.266.218</b>                          | <b>12.782.785</b>                         | <b>15.561.882</b>                         | <b>38.578.445</b>                         |

(\*) USD amounts presented above have been translated from TL for convenience purposes only, at the official USD average CBRT bid rates for the year ended 31 December 2017, and therefore do not form part of these consolidated financial statements (Note 2.1).

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

## **Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **As At and for the Year Ended 31 December 2017**

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

#### **NOTE 1 – ORGANISATION AND NATURE OF OPERATIONS OF THE GROUP**

Kordsa Teknik Tekstil Anonim Şirketi (“Kordsa” or the “Company”) was established in 1973 as a subsidiary of Hacı Ömer Sabancı Holding A.Ş. (“Sabancı Holding”) in İzmit district of Kocaeli city and is registered in Turkey. The Company operates under the Turkish Commercial Code.

The Group is mainly engaged in production of carcass and industrial fabrics included in the structure of vehicle tires, manufacture of industrial fabrics included in the structure of rubber and plastic materials such as transmission belts, V belts, rubber hoses etc., production of heavy denier fibre and connection fabrics, conversion of any type of yarn into cord fabric, fabric for mechanical rubber goods and other rubber reinforcement materials and the marketing thereof, production of Nylon 6, Nylon 6.6 and PET (Polyethylene-terephthalate) HMLS (High Modulus Low Shrinkage) polyester, and rayon heavy decitex yarn for use in tires and mechanical rubber goods; participating in capitals and management of every domestic and foreign company that is founded for mainly marketing, sales, import and export along with commercial and industrial infrastructure services, transportation services, mining, tourism and construction while providing these companies with the same management and behavioural principles to operate more efficiently, rationally and profitably, in accordance with and responding to the current conditions, creating competition conditions in favour of these companies.

Kordsa changed its name which was “Kordsa Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret Anonim Şirketi”, to “Kordsa Teknik Tekstil Anonim Şirketi” in accordance with the decision made at the General Assembly for the year 2016 dated 27 March 2017. The change of the title has been registered by the Registry of Commerce of Kocaeli on 10 April 2017.

Kordsa Global is registered with the Capital Markets Board of Turkey (“CMB”) and its shares have been traded in Borsa İstanbul (“BIST”) since 1991. As of 31 December 2017, 28,89% of the Group’s shares are listed on BIST. As of the same date, the shareholders owning the Group’s shares and the percentage of the shares are as follows:

| <b>Shareholder Structure</b>   | <b>Share Holding %</b>  |                         |
|--------------------------------|-------------------------|-------------------------|
|                                | <b>31 December 2017</b> | <b>31 December 2016</b> |
| Hacı Ömer Sabancı Holding A.Ş. | 71,11                   | 71,11                   |
| Other                          | 28,89                   | 28,89                   |
|                                | <b>100,00</b>           | <b>100,00</b>           |

Group’s main shareholder and the party that hold the control is Hacı Ömer Sabancı Holding A.Ş.

Average number of employees within the Group is 3.874 (31 December 2016: 3.782).

The address of the registered office is as follows:

Kordsa Teknik Tekstil A.Ş.  
Alikahya Fatih Mah.  
Sanayici Cad.No:90  
41310 İzmit  
Kocaeli İstanbul

## Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries

### Notes to Consolidated Financial Statements

#### As At and for the Year Ended 31 December 2017

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

#### NOTE 1 – ORGANISATION AND NATURE OF OPERATIONS OF THE GROUP (cont'd)

##### Subsidiaries

In accordance with the operating country and segment reporting purpose, geographical divisions in which the subsidiaries that are consolidated in the consolidated financial statements as at 31 December 2017 and 31 December 2016 are as follows:

##### 31 December 2017

| <u>Company name</u>          | <u>Country</u>           | <u>Geographical division</u>   | <u>Area of activity</u>                               |
|------------------------------|--------------------------|--------------------------------|---|
| Nike Kordsa Company SAE (**) | Egypt                    | Europe, Middle East and Africa | Cord fabric manufacture and trade                     |
| Kordsa Inc.                  | United States of America | North America                  | Industrial yarn and cord fabric manufacture and trade |
| Kordsa Brezilya S.A.         | Brazil                   | South America                  | Industrial yarn and cord fabric manufacture and trade |
| PT Indo Kordsa Tbk (*)       | Indonesia                | Asia                           | Industrial yarn and cord fabric manufacture and trade |
| PT Indo Kordsa Polyester (*) | Indonesia                | Asia                           | Industrial yarn and cord fabric manufacture and trade |
| Thai Indo Kordsa Co., Ltd.   | Thailand                 | Asia                           | Cord fabric manufacture and trade                     |

##### 31 December 2016

| <u>Company name</u>          | <u>Country</u>           | <u>Geographical division</u>   | <u>Area of activity</u>                               |
|------------------------------|--------------------------|--------------------------------|---|
| Nike Kordsa Company SAE (**) | Egypt                    | Europe, Middle East and Africa | Cord fabric manufacture and trade                     |
| Kordsa Inc.                  | United States of America | North America                  | Industrial yarn and cord fabric manufacture and trade |
| Kordsa Brezilya S.A.         | Brazil                   | South America                  | Industrial yarn and cord fabric manufacture and trade |
| PT Indo Kordsa Tbk (*)       | Indonesia                | Asia                           | Industrial yarn and cord fabric manufacture and trade |
| PT Indo Kordsa Polyester (*) | Indonesia                | Asia                           | Industrial yarn and cord fabric manufacture and trade |
| Thai Indo Kordsa Co., Ltd.   | Thailand                 | Asia                           | Cord fabric manufacture and trade                     |

(\*) The Company's shares are traded in Indonesia Stock Exchange ("IDX").

(\*\*) According to The Group's Board of Management decision numbered 2015/29 dated December 31 2015, shares belonging to company partners, Nile Kordsa Company for Industrial Fabrics S.A.E. and Interkordsa GmbH with %51 and %100 of rates respectively, would be classified as "Assets Held for sale" in the statement of financial position as of 31 December 2015. As at 16 November 2016, sale of Interkordsa GmbH which is amounted to EUR 3.750.000 has been completed as announced in Public Disclosure Platform.

##### Approval of the Financial Statements

These consolidated financial statements have been approved to be issued during the meeting of the Board of Directors held on 20 February 2018, and have been signed by the General Manager Ali ÇALIŞKAN and Chief Financial Officer Volkan ÖZKAN on behalf of the Board of Directors. The shareholders of the Group have the right to make changes in the consolidated financial statements after the aforementioned financial statements are issued, and they are subject to approval of the shareholders at the general assembly meeting of the Group.

**Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**As At and for the Year Ended 31 December 2017**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS**

**2.1 Basis of Presentation**

Statement of Compliance with TAS

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.

Additionally, the accompanying consolidated financial statements and notes are presented in accordance with the illustrative financial statements published by CMB on 7 June 2013.

Consolidated financial statements are prepared on the basis of historical cost except for the derivatives and investment properties shown at their fair values. When the historical cost is determined, the fair value of the amount usually paid for the assets is taken as basis.

The Company and its Turkish subsidiaries maintain their books of account and prepare their statutory financial statements in accordance with accounting principles in the Turkish Commercial Code (“TCC”) and tax legislation. Subsidiaries that are registered in foreign countries maintain their books of account and prepare their statutory statements in accordance with the prevailing accounting principles in their registered countries.

Functional and Presentation Currency

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). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in TL, which is the functional currency of the Group, and the presentation currency for the consolidated financial statements.

Preparation of Financial Statements in Hyperinflationary Periods

Based on CMB’s resolution No: 11/367 issued on 17 March 2005, companies operating in Turkey and preparing their financial statements in accordance with the POA Accounting Standards are not subject to inflation accounting effective from 1 January 2005. Therefore, starting from January 2005, TAS 29 “Financial Reporting in Hyperinflationary Economies” is not applied in the accompanying financial statements.

Comparative Information and Correction of the Financial Tables from Previous Periods

The Group’s consolidated financial tables are prepared by comparing that of previous periods to determine financial situation and performance trends. When it has been found necessary, comparative information is reclassified and important differences are explained to ensure that comparative information would be in accordance with current period consolidated financial statements.



## Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries

### Notes to Consolidated Financial Statements

#### As At and for the Year Ended 31 December 2017

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

## NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

### 2.1 Basis of Presentation (continued)

#### Basis of Consolidation

The table below sets out all Subsidiaries and shows their shareholding rates at 31 December 2017:

| <b>Subsidiaries</b>       | <b>Direct and indirect ownership<br/>interest by the Group<br/>and its subsidiaries (%)</b> | <b>Proportion of<br/>effective<br/>interest (%)</b> |
|---------------------------|---|---|
| Nile Kordsa Company       | 51,00   | 51,00   |
| Kordsa, Inc.              | 100,00  | 100,00  |
| Kordsa Brazil S.A.        | 97,31   | 97,31   |
| PT Indo Kordsa Tbk(*)     | 60,70   | 60,70   |
| PT Indo Kordsa Polyester  | 99,97   | 60,68   |
| Thai Indo Kordsa Co., Ltd | 64,19   | 38,96   |

(\*)Kordsa shares of PT Indo Kordsa Tbk increased to 60.48% from 60.21% on 26 May 2017 and to 60.70% on 23 November 2017.

The table below sets out all Subsidiaries and shows their shareholding rates at 31 December 2016:

| <b>Subsidiaries</b>       | <b>Direct and indirect ownership<br/>interest by the Group<br/>and its subsidiaries (%)</b> | <b>Proportion of<br/>effective<br/>interest (%)</b> |
|---------------------------|---|---|
| Nile Kordsa Company       | 51,00   | 51,00   |
| Kordsa, Inc.              | 100,00  | 100,00  |
| Kordsa Brazil S.A.        | 97,31   | 97,31   |
| PT Indo Kordsa Tbk        | 60,21   | 60,21   |
| PT Indo Kordsa Polyester  | 99,97   | 60,20   |
| Thai Indo Kordsa Co., Ltd | 64,19   | 38,65   |

**Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**As At and for the Year Ended 31 December 2017**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.1 Basis of Presentation (continued)**

Basis of Consolidation (continued)

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect the amount of the investor's 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.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- The size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Group, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**As At and for the Year Ended 31 December 2017**  
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.1 Basis of Presentation (continued)**

Basis of Consolidation (contined)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are 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 subsidiaries. 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 Company.

When the Group loses control of a subsidiary, a gain or loss is recognised 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 recognised 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 TFRSs). 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, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

USD Amount Presented in the consolidated financial statements

USD amount shown in the consolidated statement of financial position prepared in accordance with TAS/TFRS has been translated from TL, as a matter of arithmetic computation only, at the official USD bid rate announced by the CBRT on 31 December 2017 of TL 3,7719= USD 1 and USD amount shown in the consolidated statement of profit or loss, consolidated statement of other comprehensive income and cash flow have been translated from TL, as a matter of arithmetic computation only, at the average USD bid rates calculated from the official daily bid rates announced by the CBRT for the year ended 31 December 2017 of TL 3,6477= USD 1 and do not form part of these consolidated financial statements.

**2.2 Changes in Accounting Policies**

Significant changes in the accounting principles and significant accounting errors should be applied retrospectively and prior period financial statements should be restated. There are no changes in the accounting policies of the Group in the current period.

**2.3 Changes in Accounting Estimates and Errors**

Changes in the accounting estimates should be accounted in financial statements prospectively; if the change is related to only one period, it should be accounted at the current year that the change is performed, but if it is related to more than one period it should be accounted at both the current and future periods. There are no significant changes in the accounting estimates for the current period.

## **Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **As At and for the Year Ended 31 December 2017**

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

#### **NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (countined)**

##### **2.4 New and Revised Turkish Accounting Standards**

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

None.

b) Standards and interpretations issued but not yet effective as of 31 December 2017

a) *Standards issued but not yet effective and not early adopted*

New standards, interpretations and amendments to existing standards are not effective at reporting date but earlier application is permitted; however the Group consolidated has not early adopted are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

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

The new standard published in September 2016 by POA replaces existing IFRS guidances and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which the Company expects to be entitled, rather than fair value and new guidance have been introduced on separating performance obligations for goods and services in a contract and recognition of revenue over time. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Group has performed an initial assessment on these transactions and does not expect that there will be a significant impact on its consolidated financial statements resulting from the application of IFRS 15.

##### **IFRS 9 Financial Instruments (version 2017)**

IFRS 9 Financial Instruments, has been published by POA in January 2017, replaces the existing guidance in TAS 39 Financial Instruments: Recognition and Measurement. It also carries forward the guidance on recognition, classification, measurement and derecognition of financial instruments from TAS 39 to IFRS 9. The last version of IFRS 9 includes a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements and also includes guidance issued in previous versions of IFRS 9. The Standard is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group has performed an initial assessment on these financial assets and liabilities and does not expect that there will be a significant impact on its consolidated financial statements resulting from the application of IFRS 9.

##### **IFRS Interpretation 22 – Foreign Currency Transactions and Advance Consideration**

IFRS Interpretation 22 "Foreign Currency Transactions and Advance Consideration" has been published by POA in December 2017 to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. 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. This Interpretation is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group does not expect that there will be a significant impact on its consolidated financial statements resulting from the application of IFRS Interpretation 22.

## **Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **As At and for the Year Ended 31 December 2017**

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

#### **NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

##### **2.4 New and Revised Turkish Accounting Standards (continued)**

b) Standards and interpretations issued but not yet effective as of 31 December 2017 (continued)

a) *Standards issued but not yet effective and not early adopted*

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

TFRS 2 Share-Based Payment has been amended by POA in December 2017, to improve consistency and resolve some long-standing ambiguities in share-based payment accounting. The amendments cover three accounting areas: i) measurement of cash-settled share-based payments, ii) classification of share-based payments settled net of tax withholdings; and iii) accounting for modification of a share-based payment from cash-settled to equity-settled. Also, same approach has been adopted for the measurement of cash-settled share-based payments as equity-settled share-based payments. If certain conditions are met, share-based payments settled net of tax withholdings are accounted for as equity-settled share-based payments. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to TFRS 2. The Group does not expect that there will be a significant impact on its consolidated financial statements resulting from that amendments.

##### **TAS 40 – Transfers of Investment Property**

Amendments to TAS 40 - Transfers of Investment Property issued by POA in December 2017, have been made to clarify uncertainty about that provide evidence of transfer of /from investment property to other asset groups. A change in management’s intentions for the use of property does not provide evidence of a change in intended use. Therefore, when an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognised (eliminated from the statement of consolidated financial position) and does not reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group does not expect that there will be a significant impact on its consolidated financial statements resulting from TAS 40.

##### **Improvements to TFRSs**

The POA issued Annual Improvements to TFRSs - 2014–2016 Cycle in December 2017 . The amendments are effective as of 1 January 2018. Earlier application is permitted. The Group does not expect that application of these improvements to TFRSs will have significant impact on its consolidated financial statements.

##### ***Annual Improvements to TFRSs 2014-2016 Cycle***

##### ***TFRS 1 “First Time Adoption of International Financial Reporting Standards”***

TFRS 1 is amended to the outdated short-term exemptions for first-time adopters are removed within the context of ‘Annual Improvements to TFRSs 2012-2014 Cycle’ related to disclosures for financial instruments, employee benefits and consolidation of investment entities.

##### ***TAS 28 “Investments in Associates and Joint Ventures”***

The amendment enable when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with TFRS 9.

## **Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **As At and for the Year Ended 31 December 2017**

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

#### **NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

##### **2.4 New and Revised Turkish Accounting Standards (continued)**

b) Standards and interpretations issued but not yet effective as of 31 December 2017 (continued)

a) *Standards issued but not yet effective and not early adopted*

##### ***Amendments to TFRS 9 “Prepayment features with negative compensation”***

On December 2017, POA has issued amendments to TFRS 9 to clarify that financial assets containing repayment features with negative compensation can now be measured at amortized cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of TFRS 9. Under TFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include ‘reasonable additional compensation’ for early termination of the contract. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group does not expect that there will be a significant impact on its consolidated financial statements resulting from that amendments.

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

In December 2017, POA has issued amendments to TAS 28 to clarify that entities also apply TFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity’s net investment in an associate or joint venture. An entity applies TFRS 9 to such long-term interests before it applies related paragraphs of TAS 28. In applying TFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying TAS 28. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group does not expect that there will be a significant impact on its consolidated financial statements resulting from that amendments.

b) *The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA*

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to TFRS by the POA, thus they do not constitute part of TFRS. Such standards, interpretations and amendments that are issued by the IASB but not yet issued by the POA are referred to as IFRS or IAS. The Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

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

On 13 January 2016, IASB issued the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently changes to IAS 40 Investment Properties. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15 Revenue from Contracts with Customers. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

## **Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **As At and for the Year Ended 31 December 2017**

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

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#### **NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

##### **2.4 New and Revised Turkish Accounting Standards (continued)**

b) Standards and interpretations issued but not yet effective as of 31 December 2017 (continued)

b) *The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA (continued)*

##### **IFRIC 23 –Uncertainty over Income Tax Treatments**

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. IFRIC 23 is effective from 1 January 2019, with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 23.

##### ***Annual Improvements to IFRSs 2015-2017 Cycle***

##### **Improvements to IFRSs**

IASB issued Annual Improvements to IFRSs - 2015–2017 Cycle. The amendments are effective as of 1 January 2019. Earlier application is permitted. The Group does not expect that application of these improvements to IFRSs will have significant impact on its consolidated financial statements.

##### ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements***

IFRS 3 and IFRS 11 are amended to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.

##### ***IAS 12 Income Taxes***

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

##### ***IAS 23 Borrowing Costs***

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

## **Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **As At and for the Year Ended 31 December 2017**

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

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#### **NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

##### **2.4 New and Revised Turkish Accounting Standards (continued)**

c) Standards and interpretations issued but not yet effective as of 31 December 2017 (continued)

b) *The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA (continued)*

##### **IFRS 17 –Insurance Contracts**

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly international standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier. The Group does not expect that application of IFRS 17 will have an impact on its consolidated financial statements.

##### **2.5 Summary of Significant Accounting Policies**

Significant accounting policies applied in the preparation of the consolidated financial statements are summarized below:

###### **a) Revenue**

Revenues are recognised on an accrual basis at the time deliveries are made, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group at the fair value of considerations received or receivable. Net sales represent the invoiced value of goods sold less sales returns and commissions, and exclude sales taxes. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognized as interest income on a time proportion basis that takes into account the "effective yield" on the asset.

Other revenues earned by the Group are recognised on the following bases:

- Rent income - on accrual basis,
- Interest income - on an effective yield basis,
- Dividend income - when the Group's right to receive payment is established.



**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies**

**b) Inventories**

Inventories are valued at the lower of cost or net realisable value. Cost elements included in inventories are materials, labour and an appropriate amount of factory overheads. The unit cost of inventories is determined on the moving weighted average basis (Note 9). Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a 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 income/(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.

**c) Property, plant and equipment**

Property, plant and equipment are carried at cost less accumulated depreciation and impairment, if any (Note 11). Depreciation is provided on property, plant and equipment on a straight-line basis. The depreciation periods for property, plant and equipment, which approximate the economic useful lives of such assets, are as follows:

|                         | <b>Years</b> |
|-------------------------|--------------|
| Land improvements       | 15           |
| Buildings               | 20-40        |
| Machinery and equipment | 2-30         |
| Motor vehicles          | 3-5          |
| Furniture and fixtures  | 3-7          |

Useful lives and residual value are reviewed at each reporting date and adjusted if necessary. Gains or losses on disposals of property, plant and equipment are determined by comparing proceeds with their carrying amounts and are included in the related income and expense accounts, as appropriate.

Expenses for the repair of property, plant and equipment are normally charged against income. They are, however, capitalised in exceptional cases if they result in an enlargement or substantial improvement of the respective assets. Spare parts changes and labour costs, included in the large comprehensive maintenance and repair expenses are capitalised. And the average useful lives between the next-largest comprehensive maintenance are depreciated.

**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**d) Intangible assets**

Intangible assets include rights, software and other identifiable rights. Intangible assets are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over a period not exceeding 20 years (Note 12). The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

*Internally generated intangible assets – research and development expenses*

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

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

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

The amount initially recognized for internally-generated intangible assets is the sum of 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 charged to 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 amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

*Derecognition of intangible assets*

An intangible asset is derecognised 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 recognised in profit or loss when the asset is derecognised.

**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**e) Impairment of 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.

Intangible assets with indefinite useful lives such as goodwill are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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.

**f) 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. All other borrowing costs are classified on income statement in the period. Since the Group has no borrowing costs related to qualifying assets, all borrowing costs are classified on income statement in the period.

## **Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **As At and for the Year Ended 31 December 2017**

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

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#### **NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

##### **2.5 Summary of Significant Accounting Policies (continued)**

###### **g) Business combinations**

The acquisition of subsidiaries 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 acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

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

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised 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 acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with TFRS 2 Share-based Payment at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with TFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (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 acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised 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 recognised 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 TFRS.

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 one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**g) Business combinations (continued)**

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree 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 recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised 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, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

**h) 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 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 recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised 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.

**i) Cash and cash equivalents**

Cash and cash equivalents are carried at cost in the statement of financial position. Cash and cash equivalents comprise cash in hand, bank deposits and highly liquid investments, whose maturity at the time of purchase is three months or less than three months (Note 4).

**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**j) Trade receivables and provision for impairment**

Trade receivables that are created by the Group by way of providing goods or services directly to a debtor are carried at amortised cost. Short-term receivables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant. A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to other income (Note 7).

**k) Due date income / (charges)**

Due date income / (charges) represents the income / (charges) that are resulting from credit purchase or sales. These kind of income / (charges) are accepted as financial income and expenses which result from credit purchase or sales come true during the accounting period and included in the other operating income and expense within the maturity period.

**l) Provisions, contingent assets and liabilities**

Provisions are recognised when the Group has a present legal constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are treated as contingent assets or liabilities and not included in financial statements (Note 16).

**l) Financial leases**

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Principal payments are disclosed as liabilities and decreased according to payments made. The interest element of the finance cost is charged to the income statement over the lease period. Obligations under finance leases are stated in the consolidated financial statements at the acquisition values of the related property, plant and equipment and depreciated over the useful life.

**m) Provision for employment termination 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 Turkish Accounting Standard No. 19 (revised) “Employee Benefits” (“TAS 19”).

The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. All calculated actuarial gains and losses are accounted for under other comprehensive income (Note 16).

**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**n) Provision for post-employment benefits**

Provision for post-employment benefits is the present value of the defined benefit obligations arising from current and past services of the employees, net of the fair value of plan assets at the reporting date. Independent actuarial assumptions and 'projected unit credit method' are used to determine the present value of defined benefit obligations and the related current service cost and, where applicable, past service cost.

In determining the present value of defined benefit obligations and the related current service cost and, where applicable, past service cost, the Group attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the Group attributes benefit on a straight-line basis from the date when service by the employee first leads to benefits under the plan until the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases (Note 16).

**o) Government grants**

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**p) Available-for-sale financial assets**

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the reporting date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All financial assets are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associates with the investment. After initial recognition, financial assets that are classified as available-for-sale are measured at fair value unless fair value cannot be reliably measured.

**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**p) Available-for-sale financial assets (continued)**

Other financial assets in which the Group has interest below 20%, that do not have a quoted market price in active markets and whose fair value cannot be measured reliably are carried at cost, if applicable, less any provision for impairment. Available for sale investments that have a quoted market price in active markets and whose fair values can be measured reliably are carried at fair value.

In accordance with the revised TAS 39 "Financial Instruments", unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are deferred in the equity until the financial asset is sold, collected or otherwise disposed of. When available for sale financial assets are sold, collected or otherwise disposed of, related deferred gains and losses in equity are released to the income statement.

**r) Impairment of financial assets**

Financial assets, other than those valued by fair value through profit or loss, are assessed for indicators of impairment at each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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

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

In respect of equity securities which are held for sale, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in through equity.



## **Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries**

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#### **NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

##### **2.5 Summary of Significant Accounting Policies (continued)**

###### **s) Equity items**

Ordinary shares are classified as equity. Dividends payable are recognised in the financial statements as a result of profit distribution in the period in which they are declared.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Group's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Group's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Group's equity holders.

In the restatement of shareholders' equity items, the addition of funds formed due to hyperinflation such as the revaluation value increase fund in share capital is not considered as a contribution from shareholders. Additions of legal reserves and retained earnings to share capital are considered as contributions by shareholders.

In the restatement of shareholders' equity items added to share capital the capital increase registry dates or the payment dates are considered. In the restatement of share premiums, the payment dates are considered (Note 18).

###### **t) Taxes on income**

Taxes on income for the period comprise of current tax and the change in deferred income taxes. Current year tax liability consists of the taxes calculated over the taxable portion of the current year income by reference to corporate income tax rates enacted as of the reporting date and adjustments provided for the previous years' income tax liabilities.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax base of assets and liabilities and their carrying values for financial reporting purposes. 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 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 reporting date.

Deferred tax assets or liability are reflected to the consolidated financial statements to the extent that they will decrease or increase the tax payable amount when the temporary differences will disappear. Deferred income tax liabilities are recognised for all taxable temporary differences, whereas deferred income tax assets resulting from deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised. 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 income tax assets and deferred income tax liabilities related to income taxes levied by the same taxation authority and are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities (Note 24).

**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**t) Taxes on income (continued)**

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

**u) Effect of changes in foreign exchange rates**

Foreign Currency Transactions and Balances

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). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in TL, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on 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 which relate 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 foreign currency borrowings,
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies),
- 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 Foreign Subsidiaries, Joint Ventures and Affiliates

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group’s foreign operations are expressed in TL using exchange rates prevailing on the reporting date. 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 classified in other comprehensive income and transferred to the Group’s translation reserve.

**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**v) Borrowings and borrowing costs**

Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method. Any difference between proceeds, net of transaction costs, and the redemption value is recognized in the income statement as financial expense over the period of the borrowings.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale. All other borrowing costs are charged to the income statement when they are incurred.

**y) Derivative financial instruments**

The derivative financial instruments of the Group are comprised of forward transactions.

Derivative transactions – Cash Flow Hedges:

The Group’s activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The Group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. The use of financial derivatives is governed by the Group’s policies approved by the board of directors, which provide written principles on the use of financial derivatives consistent with the Group’s risk management strategy.

The Group does not use hedging for speculative reasons.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the statement of profit or loss.

Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the income statement as the recognized hedged item. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**y) Derivative financial instruments (continued)**

*Derivative Transaction- Other*

Derivative financial instruments are initially recognized at cost, which reflects their fair value at the date of contract, and are remeasured at fair value in subsequent periods. A financial instrument is classified in this group if it has been acquired for the purpose of being sold or repurchased at a later date. Derivative financial instruments are recognized as assets if the fair value is positive and as liabilities when the fair value is negative. The Group reflect for currency derivatives at fair value through profit or loss, forward foreign currency purchase and sale agreements and foreign currency swap and forward transactions.

*Derivative Transaction Related Net Investment in Foreign Countries*

The portion of net investments in subsidiaries and joint ventures operating in foreign countries determined to be effective or ineffectual from hedging is recognized directly in equity and the inactive portion is recognized in the income statement. Gains or losses on hedging instruments related to the effective portion of hedge accounting and recognized directly in equity are recognized in profit or loss during the hedge of the foreign operation.

**z) Deferred financing costs**

Deferred financing costs (primarily comprising legal and other costs incurred in relation to obtaining long-term bank borrowings from financial institutions) are amortised, using the effective interest method, over the remaining life of the long-term bank borrowings.

**aa) Related Parties**

Related parties are individuals or entities that are related to the entity that is preparing its financial statements (“reporting entity”).

- a) An individual or a close family member is considered related party of the reporting entity when the following criteria are met: If a certain individual,
  - (i) Has control or joint control over the reporting entity,
  - (ii) Has significant influence over the reporting entity,
  - (iii) Is a key management personnel of the reporting entity or a parent company of the reporting entity.
- b) An entity is considered related party of the reporting entity when the following criteria are met:
  - (i) If the entity and the reporting entity is within the same group. (meaning every parent company, subsidiary and other subsidiaries are considered related parties of others).
  - (ii) If the reporting entity is a subsidiary or a joint venture of another entity (or of another entity that the entity is within the same group).
  - (iii) If both of the entities are a joint venture of a third party.
  - (iv) If one of the entities are a joint venture of a third party while the other entity is a subsidiary of this third party.
  - (iv) If entity has plans of post employment benefits for employees of reporting entity or a related party of a reporting entity. If the reporting entity has its own plans, sponsor employers are also considered as related parties.
  - (v) If the entity is controlled or jointly controlled by an individual defined in the article (a).

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**aa) Related Parties (continued)**

- (vi) If an individual defined in the clause (i) of article (a) has significant influence over the reporting entity or is a key management personnel of this certain entity (or a parent company of the entity).

Related party transactions are transfers of resources, services or liabilities between related parties and the reporting entity, regardless of whether or not against remuneration.

For the purpose of these consolidated financial statements, shareholders of Hacı Ömer Sabancı Holding A.Ş. Group Companies, key management personnel and board members, in each case together with their families and companies controlled by or affiliated with them and associated companies are considered and referred to as related parties. The Group assigned its top management as board of directors, the president (CEO) and vice presidents, and the general managers of the subsidiaries (Note 26).

**ab) Earnings per share**

Earnings per share are determined by dividing net profit by the weighted average number of shares that have been outstanding during the period concerned. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“Bonus Shares”) to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Share issuances are regarded as issued shares. Accordingly the weighted average number of shares used in earnings per share computations is derived by giving retrospective effect to the issuances of the shares without consideration (Note 25).

**ac) Statement of cash flows**

Consolidated statements of cash flows are reported by presenting cash flows from operating, investing and financing activities separately.

Cash flows from operating activities are the cash flows from Group’s principal revenue-producing activities.

Cash flows from investing activities are the cash flows from Group’s acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Cash flows from financing activities are the cash flows from Group’s changes in the size and composition of the contributed equity and borrowings.

**ad) Share premium**

Share premium represents the difference between the nominal value of the Group’s shares and the net proceeds from the offering of the Group’s share to the public (Note 18).

**ae) Investment property**

Investment properties are properties held to earn rentals and/or for capital appreciation and are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**ae) Investment Property (continued)**

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Transfers are made when there is a change in the use of the investment properties. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property, Plant and Equipment” up to the date of change in use (Note 13).

**af) Segment reporting**

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on three operating segments. These operating segments are affected by different economical conditions and geographical positions in terms of risks and rewards. The Company management has determined the Operating Profit as the most appropriate method for the evaluation of the performance of the operating segments (Note 3).

**ag) Offsetting**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**ah) Subsequent event**

The Group corrects the amounts received in the consolidated financial statements in accordance with this new situation in the case of events that need to be corrected after the reporting date. Those matters that do not require adjustment after the reporting date are disclosed in the notes to the financial statements in the event that matters affecting the financial decisions of users of the financial statements.

**ai) Comparatives and restatement of prior period financial statements**

The consolidated financial statements of the Group include comparative financial information to enable the determination of the trends in financial position and performance. In terms of comparative information to conform to the presentation of the current period financial statements it is reclassified when necessary and important differences are explained.

Capital expenditures that is previously presented under prepaid expense amounting to TL 69,673,715 in the Grup’s consolidated financial statement as of 31 December 2016 have been reclassified to property, plant and equipment (Note 11).

**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.6 Critical Accounting Judgments, Estimates and Assumptions**

Preparation of the consolidated financial statements in accordance with Turkish Financial Reporting Standards necessitates the usage of estimations and assumptions that can affect amounts of reported assets and liabilities as of reporting date, the explanation for the contingent assets and liabilities and income and expenses reported during the accounting period. Although these estimations and assumptions are based on the best judgement of the Group management related with the current conditions and transactions, actual results may differ from these estimations. Estimations are revised on a regular basis; necessary adjustments and corrections are made; and they are included in the income statement when they accrue. Estimations and assumptions subject to the risk of leading to corrections in the registered value of the assets and liabilities in the next financial period are given below:

**a) Impairment test of goodwill**

The Group tests annually whether goodwill has been impaired, in accordance with the accounting policy stated in note 2.5. The recoverable amount of cash-generating unit has been determined based on value-in-use calculations. These value-in-use calculations include the discounted after tax cash flow projections, and these projections are based on USD financial budgets approved by Kordsa Global Management covering a five-year period. Cash flows beyond three years are extrapolated by taking into consideration the shut-down periods recurring once a year. The USD fair value is converted into TL by using the related foreign exchange rate on the date of the reporting date. Therefore, the values used in the calculations are affected by the fluctuations in the foreign exchange market. The discount rate used in the calculations is 10,20 % and the risk premium is 3,55%. The discount rates used are after tax and reflect specific risks relating to the company. As of 31 December 2017, the Group did not determine any impairment in the amount of the goodwill as a result of the impairment test performed by using the aforementioned assumptions.

**b) Net realisable value**

Inventories are valued at the lower of cost or net realisable value as described in the accounting policy in Note 2.5. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

**c) Useful lives of tangible and intangible assets**

In accordance with the accounting policy given in the Note 2.5, tangible and intangible assets are stated at historical cost less depreciation and net of any impairment. Depreciation on tangible assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives. Useful lives depend on best estimates of management, are reviewed in each financial period and necessary corrections are made.

**d) Provision for doubtful receivables**

A provision for trade receivables is established if there is evidence that the Group will not be able to collect amounts due. Group assesses aging of receivables and collection performances then establishes the doubtful receivable provision. Doubtful receivable provision is an accounting assumption arising from customers' history of collections and financial conditions.

**e) Provisions**

In accordance with the accounting policy given in the Note 2.5, provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

## **Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries**

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#### **NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

##### **2.6 Critical Accounting Judgments, Estimates and Assumptions (continued)**

###### **f) Deferred tax**

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Currently, there are deferred tax assets resulting from operating loss carry-forwards and deductible temporary differences at Kordsa Brazil, a subsidiary of Kordsa Global, all of which could reduce taxable income in the future. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized. The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. If based on the weight of all available evidence, it is the Group's belief that taxable profit will not be available sufficient to utilize some portion of these deferred tax assets, then some portion of or all of the deferred tax assets are not recognized. The Group has not recognized deferred tax assets for Kordsa Brazil's operating loss carry-forwards because it is not apparent that taxable profit will be available sufficient to recognize deferred tax assets. According to Brazilian tax legislation, there is not time limit for carrying forward of operating losses. However, maximum deductible balance is limited to 30% of total taxable income for the related year. 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.

###### **g) Internally-generated intangible assets**

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated. The technical feasibility of completing the intangible asset so that it will be available for use or sale, the intention to complete the intangible asset and use or sell it, the ability to use or sell the intangible asset, how the intangible asset will generate probable future economic benefits, the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset and the ability to measure reliably the expenditure attributable to the intangible asset during its development. The amount initially recognized for internally-generated intangible assets is the sum of 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 charged to profit or loss in the period in which it is incurred.

In the current year, the Group management re-examined the probable economic benefits of the internally generated intangible assets. The Group management expects the projects to continue as expected and relying on the analysis performed, expects them to create similar economic benefits. The management is sure about being able to recover the book values of the assets even though their economic benefits decrease. The aforementioned situation is followed up closely by the Group management who will make the necessary adjustments if required by the future market transactions.



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**NOTE 3 - SEGMENT REPORTING**

The reportable geographical segments for segment reporting are as follows:

**a) External revenue**

|                                | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|--------------------------------|--|--|
| Europe, Middle East and Africa | 921.988.719                            | 687.485.682                            |
| North America                  | 420.666.827                            | 351.397.094                            |
| South America                  | 337.489.909                            | 286.914.514                            |
| Asia                           | 805.020.168                            | 582.547.841                            |
|                                | <b>2.485.165.623</b>                   | <b>1.908.345.131</b>                   |

**b) Segment assets**

|   | <b>31 December 2017</b> | <b>31 December 2016</b> |
|---|-------------------------|-------------------------|
| Europe, Middle East and Africa                            | 991.642.165             | 859.123.394             |
| Asia  | 1.081.324.750           | 980.499.447             |
| South America   | 294.717.558             | 286.690.211             |
| North America   | 449.433.174             | 413.615.606             |
| <b>Segment assets</b>                                     | <b>2.817.117.647</b>    | <b>2.539.928.658</b>    |
| Unallocated assets  | 65.889.689              | 16.935.139              |
| Less: Intersegment elimination                            | (16.453.950)            | (13.189.680)            |
| <b>Total assets per consolidated financial statements</b> | <b>2.866.553.386</b>    | <b>2.543.675.117</b>    |

**c) Segment liabilities**

|  | <b>31 December 2017</b> | <b>31 December 2016</b> |
|--|-------------------------|-------------------------|
| Europe, Middle East and Africa                                 | 665.348.273             | 531.839.398             |
| North America  | 76.365.121              | 81.773.878              |
| South America  | 205.952.419             | 208.987.064             |
| Asia   | 259.089.611             | 285.303.837             |
| <b>Segment liabilities (**)</b>                                | <b>1.206.755.424</b>    | <b>1.107.904.177</b>    |
| Unallocated liabilities  | 79.696.201              | 108.340.757             |
| Less: Intersegment elimination                                 | (67.870.115)            | (144.248.716)           |
| <b>Total liabilities per consolidated financial statements</b> | <b>1.218.581.510</b>    | <b>1.071.996.218</b>    |

(\*) Segment assets comprised of mainly operating assets and exclude deferred income tax assets, time deposits and available for sale financial assets.

(\*\*) Segment liabilities comprised mainly operating liabilities and exclude income tax liabilities, other financial liabilities and loans and borrowings.

## Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries

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#### NOTE 3 - SEGMENT REPORTING (continued)

##### d) Segment analysis for the period 1 January – 31 December 2017

|   | Europe,<br>Middle East<br>and Africa | North<br>America     | South<br>America     | Asia                 | Elimination <sup>(*)</sup> | Total                  |
|---|--------------------------------------|----------------------|----------------------|----------------------|----------------------------|------------------------|
| External Revenue  | 898.329.072                          | 397.007.179          | 337.489.909          | 781.070.252          | 71.269.211                 | 2.485.165.623          |
| Intersegment revenue  | 51.400.592                           | 71.196.371           | 497.207              | 55.556.084           | (178.650.254)              | --                     |
| Revenue   | 949.729.664                          | 468.203.550          | 337.987.116          | 836.626.336          | (107.381.043)              | 2.485.165.623          |
| <b>Segment operating expenses</b>                           | <b>(794.005.096)</b>                 | <b>(507.185.919)</b> | <b>(336.850.204)</b> | <b>(703.603.880)</b> | <b>134.167.661</b>         | <b>(2.207.477.437)</b> |
| Segment operating results                                   | 155.724.568                          | (38.982.369)         | 1.136.913            | 133.022.456          | 26.786.618                 | 277.688.186            |
| <b>Operating profit</b>                                     | <b>155.724.568</b>                   | <b>(38.982.369)</b>  | <b>1.136.913</b>     | <b>133.022.456</b>   | <b>26.786.618</b>          | <b>277.688.186</b>     |
| Income/(Expense) from investing activities, net             | 7.675.191                            | 1.381.741            | 1.204.567            | 8.256.678            | (1.381.741)                | 17.136.436             |
| <b>Operating profit before financial expense</b>            | <b>163.399.759</b>                   | <b>(37.600.628)</b>  | <b>2.341.480</b>     | <b>141.279.134</b>   | <b>25.404.877</b>          | <b>294.824.622</b>     |
| Finance Income/(Expense),net                                | (79.964.415)                         | (611.351)            | (5.880.588)          | (9.259.901)          | 45.440.119                 | (50.276.136)           |
| <b>Net income before tax from continuing operations</b>     | <b>83.435.344</b>                    | <b>(38.211.979)</b>  | <b>(3.539.108)</b>   | <b>132.019.233</b>   | <b>70.844.996</b>          | <b>244.548.486</b>     |
| Tax income/(expense), net                                   | (4.670.715)                          | 15.775.169           | --                   | (36.636.140)         | (10.297.123)               | (35.828.809)           |
| <b>Net income for the period from continuing operations</b> | <b>78.764.629</b>                    | <b>(22.436.810)</b>  | <b>(3.539.108)</b>   | <b>95.383.093</b>    | <b>60.547.873</b>          | <b>208.719.677</b>     |
| Net income/(loss) after tax from discontinued operations    | 3.503.342                            | --                   | --                   | --                   | --                         | 3.503.342              |
| <b>Profit for the period</b>                                | <b>82.267.971</b>                    | <b>(22.436.810)</b>  | <b>(3.539.108)</b>   | <b>95.383.093</b>    | <b>60.547.873</b>          | <b>212.223.019</b>     |

##### e) Segment analysis for the period 1 January – 31 December 2016

|   | Europe,<br>Middle East<br>and Africa | North<br>America     | South<br>America     | Asia                 | Elimination <sup>(*)</sup> | Total                  |
|---|--------------------------------------|----------------------|----------------------|----------------------|----------------------------|------------------------|
| External Revenue  | 669.336.740                          | 314.396.860          | 286.417.306          | 555.663.971          | 82.530.253                 | 1.908.345.131          |
| Intersegment revenue  | 51.400.592                           | 71.196.371           | 497.207              | 55.556.084           | (178.650.254)              | --                     |
| Revenue   | 720.737.332                          | 385.593.231          | 286.914.513          | 611.220.055          | (96.120.001)               | 1.908.345.131          |
| <b>Segment operating expense</b>                            | <b>(583.147.993)</b>                 | <b>(375.920.952)</b> | <b>(269.361.773)</b> | <b>(506.571.075)</b> | <b>66.946.277</b>          | <b>(1.668.055.517)</b> |
| Segment operating results                                   | 137.589.339                          | 9.672.279            | 17.552.740           | 104.648.980          | (29.173.724)               | 240.289.614            |
| <b>Operating profit</b>                                     | <b>137.589.339</b>                   | <b>9.672.279</b>     | <b>17.552.740</b>    | <b>104.648.980</b>   | <b>(29.173.724)</b>        | <b>240.289.614</b>     |
| Income/(Expense) from investing activities, net             | 3.433.812                            | 779.739              | 2.596.688            | 4.757.470            | (1.062.950)                | 10.504.759             |
| <b>Operating profit before financial expense</b>            | <b>141.023.151</b>                   | <b>10.452.018</b>    | <b>20.149.428</b>    | <b>109.406.450</b>   | <b>(30.236.674)</b>        | <b>250.794.373</b>     |
| Finance Income/(Expense),net                                | (464.820)                            | (146.228)            | 11.803.334           | (10.473.634)         | (27.618.582)               | (26.899.930)           |
| <b>Net income before tax from continuing operations</b>     | <b>140.558.331</b>                   | <b>10.305.790</b>    | <b>31.952.762</b>    | <b>98.932.816</b>    | <b>(57.855.256)</b>        | <b>223.894.443</b>     |
| Tax income/(expense), net                                   | (1.185.119)                          | (4.530.877)          | --                   | (27.623.497)         | (3.089.748)                | (36.429.241)           |
| <b>Net income for the period from continuing operations</b> | <b>139.373.212</b>                   | <b>5.774.913</b>     | <b>31.952.762</b>    | <b>71.309.319</b>    | <b>(60.945.004)</b>        | <b>187.465.202</b>     |
| Net income/(loss) after tax from discontinued operations    | (9.352.330)                          | --                   | --                   | --                   | --                         | (9.352.330)            |
| <b>Profit for the period</b>                                | <b>130.020.882</b>                   | <b>5.774.913</b>     | <b>31.952.762</b>    | <b>71.309.319</b>    | <b>(60.945.004)</b>        | <b>178.112.872</b>     |

(\*)Unallocated consolidation adjustments are included in this line.

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**NOTE 3 - SEGMENT REPORTING (continued)**

**f) Capital expenditure**

|                                | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|--------------------------------|--|--|
| Europe, Middle East and Africa | 89.522.723                             | 109.220.441                            |
| North America                  | 39.268.567                             | 13.468.950                             |
| South America                  | 8.951.559                              | 8.909.547                              |
| Asia                           | 57.967.875                             | 16.255.861                             |
|                                | <b>195.710.724</b>                     | <b>147.854.799</b>                     |

**g) Depreciation and amortization expense**

|                                | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|--------------------------------|--|--|
| Europe, Middle East and Africa | 27.243.390                             | 23.873.205                             |
| North America                  | 25.624.821                             | 17.902.365                             |
| South America                  | 10.498.227                             | 7.975.026                              |
| Asia                           | 39.774.868                             | 29.558.618                             |
|                                | <b>103.141.306</b>                     | <b>79.309.214</b>                      |

**h) Provision for doubtful receivables**

|                                | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|--------------------------------|--|--|
| Europe, Middle East and Africa | --                                     | 6.155.178                              |
| North America                  | --                                     | --                                     |
| South America                  | --                                     | 212.938                                |
| Asia                           | --                                     | --                                     |
|                                | <b>--</b>                              | <b>6.368.116</b>                       |

**i) Provision for inventory obsolescence**

|                                | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|--------------------------------|--|--|
| Europe, Middle East and Africa | --                                     | 89.297                                 |
| North America                  | --                                     | 946.309                                |
| South America                  | --                                     | 135.212                                |
| Asia                           | 298.518                                | 1.499.882                              |
|                                | <b>298.518</b>                         | <b>2.670.700</b>                       |

**j) Gain on fair value of investment properties**

|                                | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|--------------------------------|--|--|
| Europe, Middle East and Africa | --                                     | --                                     |
| North America                  | --                                     | --                                     |
| South America                  | --                                     | --                                     |
| Asia                           | 10.762.712                             | 5.138.742                              |
|                                | <b>10.762.712</b>                      | <b>5.138.742</b>                       |

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**NOTE 3 - SEGMENT REPORTING (continued)**

The segment reporting in the basis of industry groups of reportable segments is as follows:

**a) External revenue**

|            | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|------------|--|--|
| Fabric     | 1.884.542.396                          | 1.456.037.140                          |
| Nylon Yarn | 508.104.326                            | 366.828.997                            |
| Other      | 92.518.901                             | 85.478.994                             |
|            | <b>2.485.165.623</b>                   | <b>1.908.345.131</b>                   |

**b) Capital Expenditures**

|                | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|----------------|--|--|
| Nylon Yarn     | 38.377.469                             | 10.797.761                             |
| Polyester Yarn | 26.244.119                             | 6.933.257                              |
| Fabric         | 37.198.103                             | 46.950.800                             |
| Other          | 93.891.033                             | 83.172.981                             |
|                | <b>195.710.724</b>                     | <b>147.854.799</b>                     |

**NOTE 4 – CASH AND CASH EQUIVALENTS**

The details of cash and cash equivalents as of 31 December 2017 and 2016 are as follows:

|                      | <b>31 December 2017</b> | <b>31 December 2016</b> |
|----------------------|-------------------------|-------------------------|
| Cash                 | 24.119                  | 29.034                  |
| Bank-demand deposits | 15.534.585              | 38.546.732              |
| Bank-time deposits   | 3.178                   | 2.679                   |
|                      | <b>15.561.882</b>       | <b>38.578.445</b>       |

Time deposits have less than 3-months maturity. Average annual interest rate for time deposits are 0,1% (2016: 0,1%) for US Dollar. Average annual interest rate for time deposits are 0,4% for THB.

The Company's related party balance related to cash and cash equivalents are disclosed in Note 26.

There is no restricted cash and cash equivalents of Group as at 31 December 2017 and 2016.

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**NOTE 5 – FINANCIAL INVESTMENTS**

|               | <b>31 December 2017</b> | <b>31 December 2016</b> |
|---------------|-------------------------|-------------------------|
| Common Stocks | 411.103                 | 386.091                 |
|               | <b>411.103</b>          | <b>386.091</b>          |

Detail of the common stocks are as follows:

|                          | <b>1 January-<br/>31 December 2017</b>  |                | <b>1 January-<br/>31 December 2016</b>  |                |
|--------------------------|---|----------------|---|----------------|
|                          | <b>Percentage of<br/>shareholding %</b> | <b>Amount</b>  | <b>Percentage of<br/>shareholding %</b> | <b>Amount</b>  |
| Investimentos Lei 8200   | <0,01                                   | 134.619        | <0,01                                   | 118.063        |
| Desenbanco               | <0,01                                   | 95.231         | <0,01                                   | 83.518         |
| Investivos Fiscais Finor | <0,01                                   | 8.715          | <0,01                                   | 7.643          |
| Other                    | --                                      | 172.538        | --                                      | 176.867        |
|                          |   | <b>411.103</b> |   | <b>386.091</b> |

Movement schedule of financial assets for the years ended 31 December 2017 and 2016 is as follows:

|                                  | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|----------------------------------|--|--|
| Balance at 1 January             | 386.091                                | 290.589                                |
| Currency translation differences | 25.012                                 | 95.502                                 |
| <b>Balance at 31 December</b>    | <b>411.103</b>                         | <b>386.091</b>                         |

**NOTE 6 – BORROWINGS**

|   | <b>31 December 2017</b> | <b>31 December 2016</b> |
|---|-------------------------|-------------------------|
| Short-term borrowings                         | 511.678.928             | 351.842.461             |
| Short-term portion of long term borrowings    | 19.314.214              | 22.282.612              |
| <b>Total short-term financial liabilities</b> | <b>530.993.142</b>      | <b>374.125.073</b>      |
| Long-term borrowings                          | 101.310.884             | 160.882.339             |
| <b>Total long-term financial liabilities</b>  | <b>101.310.884</b>      | <b>160.882.339</b>      |
| <b>Total financial liabilities</b>            | <b>632.304.026</b>      | <b>535.007.412</b>      |

The details of long and short term loans as of 31 December 2017 and 31 December 2016 are as follows:

|                              | <b>31 December 2017</b>                                   |                    | <b>31 December 2016</b>                                   |                    |
|------------------------------|---|--------------------|---|--------------------|
|                              | <b>Weighted<br/>average effective<br/>interest rate %</b> | <b>TL</b>          | <b>Weighted<br/>average effective<br/>interest rate %</b> | <b>TL</b>          |
| <b>Short-term borrowings</b> |   |                    |   |                    |
| TL borrowings                | 15,07   | 149.770.583        | --  | 509.035            |
| USD borrowings               | 3,60  | 107.872.165        | 3,28  | 40.977.154         |
| EUR borrowings               | 1,24  | 249.030.996        | 0,87  | 300.600.124        |
| Other borrowings(*)          | 9,40  | 5.005.184          | 10,25   | 9.756.148          |
|                              |   | <b>511.678.928</b> |   | <b>351.842.461</b> |

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**NOTE 6 – BORROWINGS (continued)**

| Short-term portion of long term borrowings | 31 December 2017                           |                    | 31 December 2016                           |                    |
|--|--|--------------------|--|--------------------|
|  | Weighted average effective interest rate % | TL                 | Weighted average effective interest rate % | TL                 |
| USD borrowings                             | --   | --                 | 5,06                                       | 22.282.612         |
| TL borrowings                              | 15,07                                      | 19.314.214         | --   | --                 |
|  |  | <b>19.314.214</b>  |  | <b>22.282.612</b>  |
| <b>Total short-term borrowings</b>         |  | <b>530.993.142</b> |  | <b>374.125.073</b> |
| <b>Long-term borrowings</b>                |  |                    |  |                    |
| USD borrowings                             | 5,01                                       | 87.485.680         | 5,06                                       | 96.612.195         |
| EUR borrowings                             | --   | --                 | 3,10                                       | 60.619.766         |
| Other borrowings(*)                        | 10,50                                      | 13.825.204         | 10,50                                      | 3.650.378          |
|  |  | <b>101.310.884</b> |  | <b>160.882.339</b> |

(\*) Other borrowings are consist of credits whom currency is Indonesian Rupiah.

|                     | 31 December 2017   |                    | 31 December 2016   |                    |
|---------------------|--------------------|--------------------|--------------------|--------------------|
|                     | Fair Value         | Carrying Value     | Fair Value         | Carrying Value     |
| USD borrowings      | 195.357.845        | 195.357.845        | 159.871.961        | 159.871.961        |
| TL borrowings       | 149.770.583        | 149.770.583        | 509.035            | 509.035            |
| EUR borrowings      | 268.345.210        | 268.345.210        | 361.219.890        | 361.219.890        |
| Other borrowings(*) | 18.830.388         | 18.830.388         | 13.406.526         | 13.406.526         |
|                     | <b>632.304.026</b> | <b>632.304.026</b> | <b>535.007.412</b> | <b>535.007.412</b> |

As of 31 December 2017 and 31 December 2016, the redemption schedules of borrowings are summarized below:

|              | 31 December 2017   | 31 December 2016   |
|--------------|--------------------|--------------------|
| 1 to 2 years | 23.066.077         | 83.024.271         |
| 2 to 3 years | 25.968.014         | 19.615.337         |
| 3 to 4 years | 25.968.082         | 19.615.340         |
| 4 to 5 years | 24.513.134         | 35.991.060         |
| Over 5 years | 1.795.577          | 2.636.331          |
|              | <b>101.310.884</b> | <b>160.882.339</b> |

As of 31 December 2017 and 2016, there is no commitment and contingencies given regarding to financial borrowings.

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**NOTE 7 - TRADE RECEIVABLES AND TRADE PAYABLES**

| <b>Trade receivables</b>                 | <b>31 December 2017</b> | <b>31 December 2016</b> |
|--|-------------------------|-------------------------|
| Trade receivables                        | 448.786.171             | 353.851.980             |
| Cheques in the portfolio                 | 11.492.896              | 5.996.891               |
| Due from related parties (Not 26)        | 27.918.285              | 20.944.786              |
|  | <b>488.197.352</b>      | <b>380.793.657</b>      |
| Less: Provision for doubtful receivables | (1.729.330)             | (7.741.753)             |
| Less: Unearned credit finance income     | (2.972.039)             | (831.595)               |
|  | <b>483.495.983</b>      | <b>372.220.309</b>      |

As of 31 December 2017, annual interest rates for discount of TL, USD and Euro trade receivables and payables are 13,10%, 3,10% and 2,00% respectively (2016: 8,49%, 3,00% and 1,20%). The average maturities of the trade receivables as of 31 December 2017 are up to 2.5 months and average duration of trade payables is 60 days (31 December 2016: 3 months, 45 days).

As of 31 December 2017, trade receivables amounting to TL 25.912.658 (2016: TL 32.360.455) were past due but not impaired. The aging of these receivables as of 31 December 2017 and 2016 are as follows:

|                               | <b>31 December 2017</b> | <b>31 December 2016</b> |
|-------------------------------|-------------------------|-------------------------|
| Up to 1 month                 | 21.646.141              | 26.558.888              |
| 1 to 3 months                 | 2.902.520               | 3.935.496               |
| 3 to 12 months                | 1.363.997               | 1.866.071               |
| <b>Balance at 31 December</b> | <b>25.912.658</b>       | <b>32.360.455</b>       |

As of 31 December 2017, trade receivables amounting to TL 1,729,330 (2016: TL 7,741,753) have passed and the provision for doubtful receivables has been set aside. As of 31 December 2017 and 31 December 2016, the aging schedule of the related receivables is as follows:

|                               | <b>31 December 2017</b> | <b>31 December 2016</b> |
|-------------------------------|-------------------------|-------------------------|
| Up to 1 month                 | --                      | 214.671                 |
| 1 to 3 months                 | --                      | --                      |
| 3 to 12 months                | --                      | 599.596                 |
| 1 to 5 years                  | 1.729.330               | 6.927.486               |
| <b>Balance at 31 December</b> | <b>1.729.330</b>        | <b>7.741.753</b>        |

Movement schedules of provision for doubtful receivables as of 31 December 2017 and 2016 are as follows:

|                                  | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|----------------------------------|--|--|
| Balance at 1 January             | 7.741.753                              | 1.363.347                              |
| Additions (Note 21)              | --                                     | 6.368.116                              |
| Collections                      | (6.065.550)                            | (63.597)                               |
| Currency translation differences | 53.127                                 | 73.887                                 |
| <b>Balance at 31 December</b>    | <b>1.729.330</b>                       | <b>7.741.753</b>                       |

| <b>Trade payables</b>                                | <b>31 December 2017</b> | <b>31 December 2016</b> |
|--|-------------------------|-------------------------|
| Trade payables                                       | 306.628.347             | 277.871.096             |
| Due to related parties (Note 26)                     | 7.941.709               | 6.473.265               |
|  | <b>314.570.056</b>      | <b>284.344.361</b>      |
| Less: Unrealised credit finance expense on purchases | (268.036)               | (109.230)               |
|  | <b>314.302.020</b>      | <b>284.235.131</b>      |

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**NOTE 8 – OTHER RECEIVABLES AND OTHER PAYABLES**

| <b>Other short-term receivables</b> | <b>31 December 2017</b> | <b>31 December 2016</b> |
|-------------------------------------|-------------------------|-------------------------|
| Taxes and other duties (*)          | 3.774.344               | 7.255.050               |
| Other                               | 1.708.451               | 4.135.386               |
|                                     | <b>5.482.795</b>        | <b>11.390.436</b>       |

| <b>Other long-term receivables</b>    | <b>31 December 2017</b> | <b>31 December 2016</b> |
|---------------------------------------|-------------------------|-------------------------|
| Litigation guarantee receivables (**) | 18.504.697              | 17.635.021              |
| Other                                 | 12.098.919              | 2.743.702               |
|                                       | <b>30.603.616</b>       | <b>20.378.723</b>       |

(\*) Prepaid taxes and other withholding taxes mainly comprise the social security premiums and other tax receivables of Kordsa Brazil which are over paid in excess in previous periods and the Company has the right to recollect from the Federal Bureau of Taxation.

(\*\*) The amount comprised of guarantees paid to courts by Kordsa Brazil.

| <b>Other short-term payables</b> | <b>31 December 2017</b> | <b>31 December 2016</b> |
|----------------------------------|-------------------------|-------------------------|
| Taxes and duties payable         | 11.413.077              | 11.514.964              |
| Other                            | 370.530                 | 1.919.735               |
|                                  | <b>11.783.607</b>       | <b>13.434.699</b>       |

| <b>Other long-term payables</b> | <b>31 December 2017</b> | <b>31 December 2016</b> |
|---------------------------------|-------------------------|-------------------------|
| Taxes and duties payable (***)  | 16.847.743              | 14.150.921              |
|                                 | <b>16.847.743</b>       | <b>14.150.921</b>       |

(\*\*\*) Taxes and duties payable mainly comprise of the employee and tax related law suits against Kordsa Brazil.

**NOTE 9 – INVENTORIES**

|                                  | <b>31 December 2017</b> | <b>31 December 2016</b> |
|----------------------------------|-------------------------|-------------------------|
| Finished Goods                   | 270.182.186             | 270.269.888             |
| Raw Materials and suppliers      | 169.206.630             | 132.633.052             |
| Semi-finished goods              | 75.654.875              | 75.153.889              |
| Spare parts                      | 29.767.670              | 29.630.796              |
| Intermediate goods               | 17.128.458              | 11.318.029              |
| Other inventories                | 37.185.723              | 34.800.599              |
|                                  | <b>599.125.542</b>      | <b>553.806.253</b>      |
| Less: Provision for obsolescence | (13.824.690)            | (16.422.586)            |
|                                  | <b>585.300.852</b>      | <b>537.383.667</b>      |

The allocation of the impairment of inventories for the years ended 31 December 2017 and 2016 are as follows:

|                                      | <b>31 December 2017</b> | <b>31 December 2016</b> |
|--------------------------------------|-------------------------|-------------------------|
| Finished goods                       | 4.631.321               | 8.514.774               |
| Spare parts                          | 8.619.344               | 7.568.911               |
| Semi-finished and intermediate goods | 210.397                 | 198.119                 |
| Raw materials and suppliers          | 363.630                 | 140.782                 |
| <b>Balance at 31 December</b>        | <b>13.824.692</b>       | <b>16.422.586</b>       |



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**NOTE 9 – INVENTORIES (continued)**

Movement schedules for impairment of inventories for the years ended 31 December 2017 and 2016 are as follows:

|                                  | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|----------------------------------|--|--|
| Balance at 1 January             | 16.422.586                             | 11.715.477                             |
| Additions                        | 298.518                                | 2.670.700                              |
| Reversals                        | (3.948.007)                            | (817.008)                              |
| Currency translation differences | 1.051.593                              | 2.853.417                              |
| <b>Balance at 31 December</b>    | <b>13.824.690</b>                      | <b>16.422.586</b>                      |

The amount of provision for impairment of inventory classified to cost of goods sold for the year 2017 is TL 3.649.489 (2016: TL 1.853.692).

The cost of inventories recognised as expense and included in cost of sales amounted to TL 1.145.002.585 for the period 1 January - 31 December 2017 (2016: TL 805.796.532).

**NOTE 10 – PREPAID EXPENSES AND DEFERRED INCOME**

| <b>Short-term prepaid expenses</b> | <b>31 December 2017</b> | <b>31 December 2016</b> |
|------------------------------------|-------------------------|-------------------------|
| Advances given                     | 3.504.917               | 2.417.070               |
| Prepaid expenses                   | 3.714.031               | 3.683.698               |
| Deposits and guarantees            | 12.329.918              | 13.211.184              |
|                                    | <b>19.548.866</b>       | <b>19.311.952</b>       |
| <br>                               |                         |                         |
| <b>Long-term prepaid expenses</b>  | <b>31 December 2017</b> | <b>31 December 2016</b> |
| Prepaid rent expenses              | -                       | 1.175.574               |
| Advances given                     | -                       | 1.773.891               |
| Other prepaid expenses             | 2.048.075               | 3.844.341               |
|                                    | <b>2.048.075</b>        | <b>6.793.806</b>        |
| <br>                               |                         |                         |
| <b>Deferred revenue</b>            | <b>31 December 2017</b> | <b>31 December 2016</b> |
| Deferred revenue (*)               | 7.195.555               | 6.948.837               |
|                                    | <b>7.195.555</b>        | <b>6.948.837</b>        |

(\*) Deferred revenue comprised of advances taken from customers.

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**NOTE 11 – PROPERTY, PLANT AND EQUIPMENT**

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

|                                  | <b>1 January<br/>2017</b> | <b>Additions</b>   | <b>Disposals</b>    | <b>Provision for<br/>Impairment</b> | <b>Transfers (*)</b> | <b>Currency<br/>translation<br/>differences</b> | <b>31 December<br/>2017</b> |
|----------------------------------|---------------------------|--------------------|---------------------|-------------------------------------|----------------------|---|-----------------------------|
| <b>Cost:</b>                     |                           |                    |                     |                                     |                      |   |                             |
| Land and land improvements       | 73.609.189                | --                 | (530.580)           | --                                  | --                   | 3.851.362                                       | 76.929.971                  |
| Buildings                        | 422.593.848               | 290.694            | --                  | --                                  | 706.553              | 18.310.042                                      | 441.901.137                 |
| Machinery and equipment          | 1.989.454.268             | 12.864.117         | (21.051.991)        | --                                  | 87.046.018           | 106.948.639                                     | 2.175.261.049               |
| Motor vehicles                   | 3.368.246                 | --                 | --                  | --                                  | 323.620              | 208.249   | 3.900.115                   |
| Furniture and fixtures           | 67.704.965                | 63.655             | (674.826)           | --                                  | 10.609.115           | 3.427.719                                       | 81.130.628                  |
| Construction in progress         | 110.579.839               | 181.733.682        | (427.008)           | --                                  | (113.546.452)        | 3.293.430                                       | 181.633.491                 |
|                                  | <b>2.667.310.355</b>      | <b>194.952.148</b> | <b>(22.684.405)</b> | <b>--</b>                           | <b>(14.861.146)</b>  | <b>136.039.441</b>                              | <b>2.960.756.393</b>        |
| <b>Accumulated depreciation:</b> |                           |                    |                     |                                     |                      |   |                             |
| Land and land improvements       | 31.270.820                | 770.205            | (21.419)            | --                                  | --                   | 1.198.998                                       | 33.218.604                  |
| Buildings                        | 199.410.727               | 7.535.893          | --                  | --                                  | --                   | 13.781.135                                      | 220.727.755                 |
| Machinery and equipment          | 1.097.674.702             | 82.090.345         | (12.673.226)        | --                                  | --                   | 52.978.416                                      | 1.220.070.237               |
| Motor vehicles                   | 2.865.247                 | 315.114            | (614.940)           | --                                  | --                   | 159.560   | 2.724.981                   |
| Furniture and fixtures           | 50.582.718                | 4.608.116          | (488.639)           | --                                  | --                   | 2.578.028                                       | 57.280.223                  |
|                                  | <b>1.381.804.214</b>      | <b>95.319.673</b>  | <b>(13.798.224)</b> | <b>--</b>                           | <b>--</b>            | <b>70.696.137</b>                               | <b>1.534.021.800</b>        |
| <b>Net book value</b>            | <b>1.285.506.141</b>      |                    |                     |                                     |                      |   | <b>1.426.734.593</b>        |

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**NOTE 11 – PROPERTY, PLANT AND EQUIPMENT (continued)**

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

|                                  | <b>1 January 2016</b> | <b>Additions(*)</b> | <b>Disposals</b>    | <b>Provision for Impairment</b> | <b>Transfers (*)</b> | <b>Currency translation differences</b> | <b>31 December 2016</b> |
|----------------------------------|-----------------------|---------------------|---------------------|---------------------------------|----------------------|---|-------------------------|
| <b>Cost:</b>                     |                       |                     |                     |                                 |                      |   |                         |
| Land and land improvements       | 67.742.656            | --                  | (232.898)           | --                              | --                   | 6.099.431                               | 73.609.189              |
| Buildings                        | 312.608.157           | 69.830.785          | --                  | --                              | 1.010.429            | 39.144.477                              | 422.593.848             |
| Machinery and equipment          | 1.688.749.258         | 18.443.144          | (11.388.853)        | (3.323.375)                     | 36.658.945           | 260.315.149                             | 1.989.454.268           |
| Motor vehicles                   | 3.554.077             | --                  | (832.007)           | --                              | --                   | 646.176                                 | 3.368.246               |
| Furniture and fixtures           | 53.754.289            | 231.241             | (578.910)           | --                              | 3.069.996            | 11.228.349                              | 67.704.965              |
| Construction in progress         | 81.741.753            | 128.345.561         | --                  | --                              | (106.238.238)        | 6.730.763                               | 110.579.839             |
|                                  | <b>2.208.150.190</b>  | <b>216.850.731</b>  | <b>(13.032.668)</b> | <b>(3.323.375)</b>              | <b>(65.498.868)</b>  | <b>324.164.345</b>                      | <b>2.667.310.355</b>    |
| <b>Accumulated depreciation:</b> |                       |                     |                     |                                 |                      |   |                         |
| Land and land improvements       | 27.713.224            | 668.180             | --                  | --                              | --                   | 2.889.416                               | 31.270.820              |
| Buildings                        | 174.611.578           | 6.591.912           | --                  | --                              | --                   | 18.207.237                              | 199.410.727             |
| Machinery and equipment          | 918.092.164           | 61.640.543          | (8.785.434)         | --                              | --                   | 126.727.429                             | 1.097.674.702           |
| Motor vehicles                   | 2.717.971             | 361.647             | (810.183)           | --                              | --                   | 595.812                                 | 2.865.247               |
| Furniture and fixtures           | 39.912.950            | 3.511.690           | (563.172)           | --                              | --                   | 7.721.250                               | 50.582.718              |
|                                  | <b>1.163.047.887</b>  | <b>72.773.972</b>   | <b>(10.158.789)</b> | --                              | --                   | <b>156.141.144</b>                      | <b>1.381.804.214</b>    |
| <b>Net book value</b>            | <b>1.045.102.303</b>  |                     |                     |                                 |                      |   | <b>1.285.506.141</b>    |

(\*) In accordance with the land allotment and lease agreements made between Group and Teknopark İstanbul A.Ş. for the land and buildings on the land of Composite Technologies Center of Excellence will be given back as complete and free of charge to Teknopark İstanbul A.Ş.; Group is responsible to transfer within free and clear of debt, commitment and any kind of restrictions following 17-years end of the contract as stated in the contract, additionally Group may continue to remain a lessee if applies 3 months before the end of the contract and continues to carry out the requirements of the regulations conditions. In the context of contract, investment expenditures amounting to TL 69.673.715 has been stated as long-term prepaid expenses in the consolidated financial statements as of 31 December 2016, has been reclassified to buildings from long-term prepaid expenses.

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**NOTE 11 – PROPERTY, PLANT AND EQUIPMENT (continued)**

TL 89.879.949 (2016: TL 69.790.173) of current period depreciation and amortisation expenses are included in cost of sales, TL 2.580.655 (2016: 210.093 TL) is included in research and development expenses and TL 10.680.702 (2016: TL 9.308.948) is included in general administrative expenses.

As of 31 December 2017, there are mortgages on property, plant and equipment amounting to TL 15.934.998 (2016: TL 26.438.695).

As of 31 December 2017, the capitalized borrowing cost is amounting TL 8.893.614.

**NOTE 12 – INTANGIBLE ASSETS**

|  | 1 January<br>2017 | Addition         | Disposals | Transfers(*)      | Impairment         | Currency<br>translation<br>differences | 31 December<br>2017 |
|--|-------------------|------------------|-----------|-------------------|--------------------|--|---------------------|
| <b>Cost:</b>   |                   |                  |           |                   |                    |  |                     |
| Rights   | 21.889.766        | --               | --        | 6.622.891         | (2.179.274)        | --                                     | 26.333.383          |
| Technology licences<br>Capitalized<br>development costs    | 20.442.503        | --               | --        | --                | --                 | 1.052.285                              | 21.494.788          |
| Computer software  | 12.737.753        | --               | --        | --                | --                 | --                                     | 12.737.753          |
| Customer relationships                                     | 26.194.731        | 758.576          | --        | 8.238.255         | --                 | 2.023.726                              | 37.215.288          |
| Other intangible assets                                    | 659.479           | --               | --        | --                | --                 | --                                     | 659.479             |
|  | 4.210.167         | --               | --        | --                | --                 | --                                     | 4.210.167           |
|  | <b>86.134.399</b> | <b>758.576</b>   | <b>--</b> | <b>14.861.146</b> | <b>(2.179.274)</b> | <b>3.076.011</b>                       | <b>102.650.858</b>  |
| <b>Accumulated<br/>Depreciation</b>                        |                   |                  |           |                   |                    |  |                     |
| Rights   | 7.071.294         | 2.470.594        | --        | --                | --                 | --                                     | 9.541.888           |
| Technology licences<br>Capitalized<br>development expenses | 17.426.080        | 44.521           | --        | --                | --                 | 887.325                                | 18.357.926          |
| Computer software  | 6.618.372         | 2.380.282        | --        | --                | --                 | --                                     | 8.998.654           |
| Other intangible assets                                    | 21.077.647        | 2.072.733        | --        | --                | --                 | 1.443.265                              | 24.593.645          |
|  | 3.378.761         | 853.503          | --        | --                | --                 | --                                     | 4.232.264           |
|  | <b>55.572.154</b> | <b>7.821.633</b> | <b>--</b> | <b>--</b>         | <b>--</b>          | <b>2.330.590</b>                       | <b>65.724.377</b>   |
| <b>Net book value</b>                                      | <b>30.562.245</b> |                  |           |                   |                    |  | <b>36.926.481</b>   |

(\*) The amount is comprised of transfers from property, plant and equipment.

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**NOTE 12 – INTANGIBLE ASSETS (continued)**

|   | 1 January<br>2016 | Addition         | Disposals        | Impairment | Transfers        | Currency<br>translation<br>differences | 31 December<br>2016 |
|---|-------------------|------------------|------------------|------------|------------------|--|---------------------|
| <b>Cost:</b>  |                   |                  |                  |            |                  |  |                     |
| Rights  | 20.710.031        | --               | (123.188)        | --         | 1.303.135        | (212)                                  | 21.889.766          |
| Technology licences<br>Capitalized<br>development costs | 18.200.019        | --               | --               | --         | --               | 2.242.484                              | 20.442.503          |
| Computer software                                       | 12.737.753        | --               | --               | --         | --               | --                                     | 12.737.753          |
| Customer relationships                                  | 20.032.384        | 540.069          | --               | --         | 1.941.154        | 3.681.124                              | 26.194.731          |
| Other intangible assets                                 | 659.479           | --               | --               | --         | --               | --                                     | 654.479             |
|   | 4.077.691         | 137.714          | (5.238)          | --         | --               | --                                     | 4.210.167           |
|   | <b>76.417.357</b> | <b>677.783</b>   | <b>(128.426)</b> | <b>--</b>  | <b>3.244.289</b> | <b>5.923.396</b>                       | <b>86.134.399</b>   |
| <b>Accumulated<br/>Depreciation</b>                     |                   |                  |                  |            |                  |  |                     |
| Rights  | 6.264.332         | 842.115          | (35.153)         | --         | --               | --                                     | 7.071.294           |
| Technology licences<br>Capitalized<br>development costs | 15.806.933        | --               | --               | --         | --               | 1.619.147                              | 17.426.080          |
| Computer software                                       | 6.005.427         | 612.945          | --               | --         | --               | --                                     | 6.618.372           |
| Other intangible assets                                 | 14.119.500        | 4.217.943        | --               | --         | --               | 2.740.204                              | 21.077.647          |
|   | 2.521.760         | 862.239          | --               | --         | --               | (5.238)                                | 3.378.761           |
|   | <b>44.717.952</b> | <b>6.535.242</b> | <b>(35.153)</b>  | <b>--</b>  | <b>--</b>        | <b>4.354.113</b>                       | <b>55.572.154</b>   |
| <b>Net book value</b>                                   | <b>31.699.405</b> |                  |                  |            |                  |  | <b>30.562.245</b>   |

**NOTE 13 – INVESTMENT PROPERTY**

|   | 31 December 2017  | 31 December 2016  |
|---|-------------------|-------------------|
| Balance at the beginning of the year          | <b>40.123.712</b> | <b>28.190.849</b> |
| Gain / (loss) from fair value adjustments (*) | 10.762.712        | 5.138.742         |
| Currency translation differences              | (3.845.252)       | 6.794.121         |
| <b>Balance at 31 December</b>                 | <b>47.041.172</b> | <b>40.123.712</b> |

(\*) As of 31 December 2017 and 2016 the fair value of the Group's investment property in PT Indo Kordsa Company in Asia Pasific Region has been determined by independent experts who are not related with the Group and have appropriate qualifications and recent experience in the valuation of properties. The estimated fair values of lands owned have been determined by taking reference of the market transaction prices of similar properties. When determining the fair values of the lands the highest of the value in use has been considered. In the current period no different valuation methodology is performed.

As of 31 December 2017, the fair value hierarchy of the Group's investment property is Level 2 and in the current period there has been no transition between Level 2 and Level 3.

## **Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries**

### **Notes to Consolidated Financial Statements**

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#### **NOTE 14 – GOODWILL**

The goodwill with an amount of TL 45.595.167 (2016: TL 45.595.167) net book value as of 31 December 2017 consisted of TL 42.570.007 (2015: TL 42.570.007), which accrued in consequence of the merger with Dusa Endüstriyel İplik ve Sanayi ve Ticaret A.Ş on 30 September 1999, and TL 3.025.160 (2016: TL 3.025.160), which accrued in consequence of the acquisition of the PT Indo Kordsa Group on 22 December 2006.

In Note 2.6 details of assessment for the impairment of goodwill is defined. There is no change in the book value of the goodwill, which is TL 45.595.167 for the period ended as of 31 December 2017 and 2016.

The cash generating unit value, has been tested for the sensitivity of cash flows to the weighted average cost of capital ("WACC") of +1%/-1% (31 December 2016: +1%/-1%). As a result of the impairment test, it has been determined that there is no impairment in the cash generating unit value.

#### **NOTE 15 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES**

Commitments and contingencies, from which the Group management does not anticipate any significant losses or liabilities are summarized below:

##### **a) Guarantees given**

|                        | <b>31 December 2017</b> | <b>31 December 2016</b> |
|------------------------|-------------------------|-------------------------|
| Pledges given to banks | 241.623.300             | 225.433.754             |
| Letter of guarantees   | 41.682.024              | 21.197.037              |
| Letter of credits      | 52.028.106              | 4.374.489               |
| Commitments            | 1.137.483               | 892.614                 |
|                        | <b>336.470.913</b>      | <b>251.897.894</b>      |

##### **b) Guarantees received**

|  | <b>31 December 2017</b> | <b>31 December 2016</b> |
|--|-------------------------|-------------------------|
| Letter of guarantees                     | 24.178.284              | 8.300.295               |
| Cheques and notes received as collateral | 913.067                 | 752.455                 |
|  | <b>25.091.351</b>       | <b>9.052.750</b>        |

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**NOTE 15 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES (continued)**

**c) Guarantees, Pledges and Mortgages given by the Group (“GPM”)**

| <b>31 December 2017</b>  | <b>TL Equivalent</b> | <b>TL</b>        | <b>USD</b>        | <b>EUR</b>        | <b>Thai Baht</b>  | <b>Other TL Equivalent</b> |
|--|----------------------|------------------|-------------------|-------------------|-------------------|----------------------------|
| A. Total amount of GPMs given in the name of its own legal personality                             | 336.470.913          | 8.410.708        | 74.253.052        | 10.369.738        | 10.055.500        | --                         |
| B. Total amount of GPMs given behalf of subsidiaries consolidated in full                          | --                   | --               | --                | --                | --                | --                         |
| C. GPM given for continuation of its economic activities on behalf of third parties                | --                   | --               | --                | --                | --                | --                         |
| D. Total amount of other GPM   | --                   | --               | --                | --                | --                | --                         |
| i. Total amount of GPM given behalf of the majority shareholders                                   | --                   | --               | --                | --                | --                | --                         |
| ii. Total amount of GPM given to on behalf of other Group companies which are not in scope B and C | --                   | --               | --                | --                | --                | --                         |
| iii. Total amount of GPM given to on behalf of third parties which are not in scope of clause C    | --                   | --               | --                | --                | --                | --                         |
|  | <b>336.470.913</b>   | <b>8.410.708</b> | <b>74.253.052</b> | <b>10.369.738</b> | <b>10.055.500</b> | <b>--</b>                  |

| <b>31 December 2016</b>  | <b>TL Equivalent</b> | <b>TL</b>         | <b>USD</b>        | <b>EUR</b>       | <b>Thai Baht</b> | <b>Other TL Equivalent</b> |
|--|----------------------|-------------------|-------------------|------------------|------------------|----------------------------|
| A. Total amount of GPMs given in the name of its own legal personality                             | 251.897.894          | 13.693.814        | 65.295.692        | 2.022.486        | 9.288.136        | --                         |
| B. Total amount of GPMs given behalf of subsidiaries consolidated in full                          | 5.500.510            | --                | 1.563.000         | --               | --               | --                         |
| C. GPM given for continuation of its economic activities on behalf of third parties                | --                   | --                | --                | --               | --               | --                         |
| D. Total amount of other GPM   | --                   | --                | --                | --               | --               | --                         |
| i. Total amount of GPM given behalf of the majority shareholders                                   | --                   | --                | --                | --               | --               | --                         |
| ii. Total amount of GPM given to on behalf of other Group companies which are not in scope B and C | --                   | --                | --                | --               | --               | --                         |
| iii. Total amount of GPM given to on behalf of third parties which are not in scope of clause C    | --                   | --                | --                | --               | --               | --                         |
|  | <b>257.398.404</b>   | <b>13.693.814</b> | <b>66.858.692</b> | <b>2.022.486</b> | <b>9.288.136</b> | <b>--</b>                  |

(\*) Group equity ratio to other CPM given by the group is 0 % as of 31 December 2017 (31 December 2016: 0%).

## Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries

### Notes to Consolidated Financial Statements

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#### NOTE 16 – EMPLOYEE BENEFITS

| <b>Short-term provisions for employee benefits</b> | <b>31 December 2017</b> | <b>31 December 2016</b> |
|--|-------------------------|-------------------------|
| Provision for unused vacation                      | 9.468.393               | 9.361.820               |
| Provision for bonus accrual                        | 10.894.966              | 11.900.025              |
| Provision for capital contribution plan (*)        | 3.249.380               | 1.920.252               |
|  | <b>23.612.739</b>       | <b>23.182.097</b>       |

(\*) The Group applies a contribution-based (premium pay) profit-sharing programme called "Capital Contribution Plan" for North America region workers, where 5% of the total premiums earned is paid annually to employees' account, which is reimbursible after fulfilling three years of work experience within the Group.

In addition to this benefit, another plan called 401(k) is applied to the employees that work in North America. According to this plan, employees can contribute up to 5% of their salaries to the plan and the Group contributes the same amount as the employees' contribution.

Movements in the provision for unused vacation during the year are as follows:

|                                  | <b>1 January -<br/>31 December 2017</b> | <b>1 January -<br/>31 December 2016</b> |
|----------------------------------|---|---|
| Balance at 1 January             | 9.361.820                               | 7.011.890                               |
| Increasing during the year       | 7.895.006                               | 6.203.566                               |
| Decrease during the year         | (6.266.737)                             | (3.684.003)                             |
| Currency translation differences | (1.521.696)                             | (169.633)                               |
|                                  | <b>9.468.393</b>                        | <b>9.361.820</b>                        |

| <b>Long-term provisions for employee benefits</b>   | <b>31 December 2017</b> | <b>31 December 2016</b> |
|---|-------------------------|-------------------------|
| Provision for employment termination benefits (*)   | 38.353.012              | 35.875.121              |
| Accruals for employee retirement benefit plans (**) | 21.480.152              | 15.854.431              |
|   | <b>59.833.164</b>       | <b>51.729.552</b>       |

#### (\*) Provision for employment termination benefits

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

Also, possibility of saving severance payment for employees whose insurance-entry dates went back earlier than 8 September 1999 and before, and who had completed their 15<sup>th</sup> year in the company has been calculated as % 100.

As at 31 December 2017 the amount payable consists of one month's salary limited to a maximum of TL 4.732,48 (31 December 2016: TL 4.426,16) for each year of service.



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#### NOTE 16 – EMPLOYEE BENEFITS (continued)

The liability is not funded, as there is no funding requirement. The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. TAS 19 "Employee Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly the following actuarial assumptions were used in the calculation of the total liability:

|                                   | 2017  | 2016  |
|-----------------------------------|-------|-------|
| Discount rate (%)                 | 3,70  | 3,00  |
| The probability of retirement (%) | 97,96 | 98,04 |

The principal assumption is that maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of TL 5.001,76 (1 January 2017: TL 4.426,16), which is effective from 1 January 2018, has been taken into consideration in calculating the provision for employment termination benefits of the Group.

Movements in the provision for employment termination benefits during the year are as follows:

|                               | <u>1 January -<br/>31 December 2017</u> | <u>1 January -<br/>31 December 2016</u> |
|-------------------------------|---|---|
| Balance at 1 January          | 35.875.121                              | 31.324.409                              |
| Increasing during the year    | 3.779.341                               | 7.298.055                               |
| Payment during the year       | (3.563.819)                             | (2.790.360)                             |
| Acturial gain                 | 2.262.369                               | 43.017                                  |
| <b>Balance at 31 December</b> | <b>38.353.012</b>                       | <b>35.875.121</b>                       |

#### (\*\*) Provision for employment retirement benefits plans:

Provision for post-employment benefits is the present value of the defined benefit obligations of the Subsidiaries in Indonesia and Thailand, arising from current and past services of the employees, net of the fair value of plan assets at the reporting date. Independent actuarial assumptions and 'projected unit credit method' are used to determine the present value of defined benefit obligations.

Provision for employment retirement benefit plans are to be calculated in accordance with the laws in the country the subsidiaries operate in and in proportion to work hours of the employees. Work hours and salary provisions those should be paid are listed in the table below:

| <b>Duration of Employment/Service</b> | <b>Payable<br/>salary provision</b> |
|---------------------------------------|-------------------------------------|
| Within 120 days - 1 year              | 30 days                             |
| Within 1 year - 3 years               | 90 days                             |
| Within 3 years - 6 years              | 180 days                            |
| Within 6 years - 10 years             | 240 days                            |
| Over 10 years                         | 300 days                            |

Provision of employee termination benefit is calculated by an independent firm with considering the variables such as employee ages, working period, retirement age, turnover rate, salary increase rate and inflation rate. The calculation is renewed every year and the provision amount is adjusted in consolidated profit or loss statement as income or expense with considering the expected working period of employees.

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**NOTE 16 – EMPLOYEE BENEFITS (continued)**

Movement schedule of provision for employment retirement benefit plans is as follows:

|                                  | <b>1 January -<br/>31 December 2017</b> | <b>1 January -<br/>31 December 2016</b> |
|----------------------------------|---|---|
| Balance at 1 January             | 15.854.431                              | 12.094.097                              |
| Addition during the year         | 4.149.239                               | 881.609                                 |
| Payment during the year          | (335.445)                               | (29.838)                                |
| Currency translation differences | 1.811.927                               | 2.908.563                               |
| <b>Balance at 31 December</b>    | <b>21.480.152</b>                       | <b>15.854.431</b>                       |

| <b>Employee benefit obligations</b> | <b>31 December 2017</b> | <b>31 December 2016</b> |
|-------------------------------------|-------------------------|-------------------------|
| Wage accruals                       | 1.799.111               | 1.453.971               |
| Due to personnel                    | 9.395.770               | 3.786.942               |
|                                     | <b>11.194.881</b>       | <b>5.240.913</b>        |

**NOTE 17 – OTHER ASSETS AND LIABILITIES**

| <b>Other current assets</b> | <b>31 December 2017</b> | <b>31 December 2016</b> |
|-----------------------------|-------------------------|-------------------------|
| Deductible VAT              | 30.362.936              | 19.952.628              |
| Deferred VAT                | 25.525.125              | 17.686.694              |
| Prepaid taxes and funds     | 1.552.757               | 4.559.329               |
| Advances given to personnel | 732.569                 | 645.122                 |
| Other                       | 6.848.859               | 298.770                 |
|                             | <b>65.022.246</b>       | <b>43.142.543</b>       |

| <b>Other non-current assets</b> | <b>31 December 2017</b> | <b>31 December 2016</b> |
|---------------------------------|-------------------------|-------------------------|
| Long-term spare parts           | 41.269.024              | 33.854.912              |
| Long-term deposits              | 402.271                 | 107.650                 |
|                                 | <b>41.671.295</b>       | <b>33.962.562</b>       |

| <b>Other current liabilities</b>            | <b>31 December 2017</b> | <b>31 December 2016</b> |
|---|-------------------------|-------------------------|
| Other tax accruals (**)                     | 8.187.984               | 4.181.970               |
| Expense accruals                            | 7.893.452               | 7.183.168               |
| Sales discounts and commission accruals (*) | 5.862.615               | 5.764.210               |
| Other personnel expense accruals            | 440.558                 | 643.310                 |
| Other                                       | 2.543.174               | 277.793                 |
|   | <b>24.927.783</b>       | <b>18.050.451</b>       |

(\*) Sales discount and commission accruals consist of the accrued intermediary commissions as of the reporting date.

(\*\*) Other tax accruals mainly comprise foreign Subsidiaries' export, environmental, security and other tax liabilities.

## Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries

### Notes to Consolidated Financial Statements

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#### NOTE 18 – EQUITY

##### Paid-in share capital

The Group's authorized and issued capital consists of 19.452.907.600 shares at 1 shares of Kr1 nominal value (2016: 19.452.907.600 shares). All shares are paid and there is no preferred stock. The Group's shareholders and their shareholdings at 31 December 2017 and 2016 are as follows:

|                                | 2017               | Ownership<br>interest % | 2016               | Ownership<br>interest % |
|--------------------------------|--------------------|-------------------------|--------------------|-------------------------|
| Hacı Ömer Sabancı Holding A.Ş. | 138.327.614        | 71,11                   | 138.327.614        | 71.11                   |
| Other                          | 56.201.462         | 28,89                   | 56.201.462         | 28,89                   |
|                                | <b>194.529.076</b> | <b>100,00</b>           | <b>194.529.076</b> | <b>100,00</b>           |

##### Revaluation and hedging reserves

|                                     | 31 December 2017 | 31 December 2016 |
|-------------------------------------|------------------|------------------|
| Financial assets fair value reserve | (270.151)        | (270.151)        |
| Hedging reserve                     | 11.635           | 988.581          |
|                                     | <b>(258.516)</b> | <b>718.430</b>   |

##### **Financial Assets Fair Value Reserve:**

The Financial Assets Fair Value Reserve represents the cumulative gains and losses arising on the revaluation of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

##### **Hedging Reserve:**

The Hedging Reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss.

##### **Movements of Hedging Reserve:**

|  | 1 January -<br>31 December 2017 | 1 January -<br>31 December 2016 |
|--|---------------------------------|---------------------------------|
| <b>Balance at 1 January</b>  | <b>988.581</b>                  | <b>9.540.417</b>                |
| Increases/decreases  | (11.209.982)                    | 1.131.529                       |
| Income tax related to gains /losses recognized in other comprehensive income | 244.303                         | 2.138.363                       |
| Amounts reclassified to profit or loss                                       | 9.988.733                       | (11.821.728)                    |
| <b>Balance at 31 December</b>  | <b>11.635</b>                   | <b>988.581</b>                  |

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#### **As At and for the Year Ended 31 December 2017**

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#### **NOTE 18 – EQUITY (continued)**

##### **Share Premiums**

Share premiums presented in the consolidated financial statements represent the proceeds obtained by issuing shares above the nominal values in the amount of TL 102.684.000 and TL 4.551.000 during the capital increases in May 2006 and June 2006, respectively following the establishment of the Company.

After the decision of Kordsa Global and Kordsa Turkey's merger through acquisition of Kordsa Global by Kordsa Turkey as a whole with its assets and liabilities as of 30 June 2006 in the Extraordinary General Assembly Meeting of Kordsa Turkey on 29 November 2006, the share premium of TL 57.736 was accounted as addition to share premium.

As of 23 January 2007, founding partners' redeemed shares are acquired in return for TL 45.240.000 and this amount is accounted for as a deduction from additional paid-in capital.

##### **Restricted Reserves**

As at 31 December 2017 restricted reserves comprised of legal reserves amounting to TL 54.948.350 (31 December 2016: TL 46.763.317).

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

##### **Dividend Payments**

Public companies distribute profit in accordance with Profit Share Communiqué no II-19.1 issued by CMB effective from 1 February 2014. Ventures distribute their profit due to profit distribution policies set by the general assembly in accordance with the related legislation verdicts with a general assembly minute. Within the extent of the communiqué mentioned above a minimal distribution rate is not designated. Companies distribute their profits in accordance with their main agreements of profit distribution policies.

#### **NOTE 19 - SALES AND COST OF SALES**

|                           | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|---------------------------|--|--|
| Sales income (gross)      | 2.522.184.022                          | 1.940.155.133                          |
| Sales returns (-)         | (4.302.979)                            | (9.072.674)                            |
| Sales discounts (-)       | (13.442.175)                           | (17.271.929)                           |
| Other sales discounts (-) | (19.273.245)                           | (5.465.399)                            |
| <b>Sales income (net)</b> | <b>2.485.165.623</b>                   | <b>1.908.345.131</b>                   |
| Cost of sales (-)         | (2.035.686.160)                        | (1.511.811.029)                        |
| <b>Gross Profit</b>       | <b>449.479.463</b>                     | <b>396.534.102</b>                     |

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**NOTE 20 - EXPENSES BY NATURE**

|  | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|--|--|--|
| Raw materials and consumables used     | 1.145.002.585                          | 805.796.562                            |
| Personnel expenses                     | 360.518.754                            | 292.597.006                            |
| Energy expenses                        | 216.890.541                            | 176.506.939                            |
| Depreciation and amortization expenses | 103.141.306                            | 79.309.214                             |
| Distribution expenses                  | 60.093.541                             | 44.061.906                             |
| Packaging expenses                     | 48.924.624                             | 40.197.852                             |
| Consultancy expenses                   | 23.171.439                             | 14.492.139                             |
| Idle mill expenses                     | 16.622.954                             | 11.622.180                             |
| Maintenance expenses                   | 3.016.513                              | 2.648.352                              |
| Rent expenses                          | 3.061.056                              | 2.375.154                              |
| Other                                  | 268.479.924                            | 218.196.784                            |
|  | <b>2.248.923.237</b>                   | <b>1.687.804.088</b>                   |

**NOTE 21 - OTHER OPERATING INCOME AND EXPENSES**

|  | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|--|--|--|
| <b>Other operating income</b>                      |  |  |
| Foreign exchange gains/losses on trade receivables | 101.903.702                            | 204.571.399                            |
| Domestic production incentive income (*)           | 23.659.648                             | 20.080.168                             |
| Unearned finance income on credit sales            | 13.628.544                             | 7.104.216                              |
| Rent income  | 1.296.135                              | 188.842                                |
| Export incentive income                            | 578.116                                | 420.331                                |
| Income from insurance claims                       | --                                     | 35.480                                 |
| Other  | 11.420.885                             | 7.122.029                              |
|  | <b>152.487.030</b>                     | <b>239.522.465</b>                     |

(\*) Domestic production incentive income refers to the Brazilian Subsidiary's sales tax return income on finished goods produced and sold in its own country.

|   | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|---|--|--|
| <b>Other operating expenses</b>                       |  |  |
| Foreign exchange gains/losses on trade payables (net) | 77.614.821                             | 176.259.340                            |
| Donations   | 12.371.425                             | 8.530.363                              |
| Unrealized finance expense on credit purchases        | 7.586.459                              | 4.257.826                              |
| Taxes and duties                                      | 6.994.685                              | 9.826.034                              |
| Expenses of the customer damages                      | 44.419                                 | 811.309                                |
| Provision expenses for doubtful receivables (Note 7)  | --                                     | 6.368.116                              |
| Property, plant and equipment impairment loss         | --                                     | 3.323.375                              |
| Other   | 6.429.421                              | 10.397.531                             |
|   | <b>111.041.230</b>                     | <b>219.773.894</b>                     |

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**NOTE 22 - INCOME AND EXPENSES FROM INVESTING ACTIVITIES**

|  | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|--|--|--|
| <b>Gains from investing activities</b>             |  |  |
| Gain from fair value of investment properties      | 10.762.712                             | 5.138.742                              |
| Gain on sale of property, plant and equipment (*)  | 7.761.063                              | 5.585.681                              |
| Interest income                                    | 2.417.327                              | 3.940.635                              |
|  | <b>20.941.102</b>                      | <b>14.665.058</b>                      |
| <b>Losses from investing activities</b>            |  |  |
| Loss on sale of property, plant and equipment (**) | 3.804.666                              | 4.160.298                              |
|  | <b>3.804.666</b>                       | <b>4.160.298</b>                       |

(\*) Gain on sale of property, plant and equipment comprised of the gain on sale of the Group's land located in İzmit that was not utilised for production as at 31 December 2017.

(\*\*) Loss on sale of property, plant and equipment comprises of loss on sale of the Group's machinery and equipment located in Kordsa İzmit and Brasil facilities that was not utilised for production as at 31 December 2017 and 2016.

**NOTE 23 - FINANCIAL INCOME/ EXPENSES**

|                                  | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|----------------------------------|--|--|
| <b>Financial income</b>          |  |  |
| Gain on derivative instruments   | 5.770.580                              | --                                     |
|                                  | <b>5.770.580</b>                       | <b>--</b>                              |
| <b>Financial expense</b>         |  |  |
| Interest expenses                | 31.440.493                             | 17.829.187                             |
| Foreign exchange losses          | 20.623.659                             | 6.577.539                              |
| Losses on derivative instruments | 2.342.323                              | 1.543.993                              |
| Other financial expenses         | 1.640.241                              | 949.212                                |
|                                  | <b>56.046.716</b>                      | <b>26.899.931</b>                      |

**NOTE 24 – TAXATION ON INCOME****Corporate Tax**

|                         | <b>31 December 2017</b> | <b>31 December 2016</b> |
|-------------------------|-------------------------|-------------------------|
| Corporate tax payable   | 18.909.161              | 27.787.803              |
| Less: Prepaid taxes (*) | (24.393.155)            | (23.876.156)            |
|                         | <b>(5.483.994)</b>      | <b>3.911.647</b>        |

(\*) As of 31 December 2017, the Prepaid Corporate Tax exceeding the Corporate Taxes Payable amounting to TL 5.483.994 has been accounted for under Assets Related to Current Tax account.

The Group 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.

## Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries

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#### NOTE 24 – TAXATION ON INCOME (continued)

##### Corporate Tax (continued)

Corporate tax rate for tax accrual on taxable income is applied to the taxable profit which is calculated by adding non-deductible expenses and deducting certain exemptions that take place in tax laws (carryforward losses and if utilized exemptions for investment incentives).

In Turkey, corporate tax rate is 20% as of 31 December 2017 (2016: 20%). However, according to the Article 91 of the Law numbered 7061 "Legislation on Amendment of Certain Tax Legislation and Other Certain Legislation" which was published on the Official Gazette numbered 30261 on 5 December 2017 and according to the provisional clause 10 added to the Corporate Tax Law numbered 5520; corporate tax rate for the taxation periods of 2018, 2019 and 2020 is amended to 22%, which would later be applied as 20% at the end of these periods. During these periods, Council of Ministers is entitled to decrease the corporate tax rate of 22% to 20%.

The tax legislation provides for a temporary tax of 20% (2016: 20%) to be calculated and paid based on earnings generated for each quarter for the period ended 31 December 2017. The amounts thus calculated and paid are offset against the final corporate tax liability for the year. With the amendment to the Law, corporate rate is set to 22% for the years 2018, 2019 and 2020.

The taxes on income reflected to consolidated income statements for the years ended 31 December 2017 and 2016 are summarized as follows:

|                                      | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|--------------------------------------|--|--|
| Current period corporate tax expense | (36.933.461)                           | (27.787.803)                           |
| Deferred tax income /(expense)       | 1.104.652                              | (8.641.439)                            |
|                                      | <b>(35.828.809)</b>                    | <b>(36.429.242)</b>                    |

The reconciliation of tax on the consolidated profit or loss tables for the years ended 31 December 2017 and 2016 is as follows:

|  | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|--|--|--|
| Profit before tax in the consolidated financial statements | 244.548.486                            | 223.894.443                            |
| Tax charge according to parent company's tax rate 20%      | 48.909.697                             | 44.778.889                             |
| Tax rate differences of subsidiaries                       | (5.490.881)                            | (5.164.036)                            |
| <b>Expected tax charge of the Group</b>                    | <b>43.418.816</b>                      | <b>39.614.853</b>                      |
| Disallowable expenses                                      | 57.839                                 | 1.984.170                              |
| Other exempt income  | (29.648)                               | (1.705.767)                            |
| Exemption of real estate sales                             | (500.141)                              | (157.162)                              |
| Lump-sum expense provision                                 | (538.061)                              | (558.793)                              |
| Research and development incentive allowance               | (3.062.226)                            | (2.675.755)                            |
| Consolidation eliminations without deferred tax effect     | (3.517.770)                            | (72.304)                               |
| <b>Current period tax expense</b>                          | <b>35.828.809</b>                      | <b>36.429.242</b>                      |

The Group recognises deferred tax assets and liabilities based upon temporary differences arising between their financial statements as reported under TAS and their statutory tax financial statements.

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#### NOTE 24 – TAXATION ON INCOME (continued)

##### Corporate Tax (continued)

Tax rates used for deferred tax assets and liabilities calculated on temporary differences that are expected to be realised or settled based on the taxable income under the liability method are mentioned below:

| <b>Country</b>           | <b>31 December 2017</b> | <b>31 December 2016</b> |
|--------------------------|-------------------------|-------------------------|
| Turkey                   | 20%                     | 20%                     |
| Egypt                    | 30%                     | 30%                     |
| United States of America | 25%                     | 35%                     |
| Brazil                   | 21,5%                   | 21,5%                   |
| Indonesia                | 25%                     | 25%                     |
| Thailand                 | 20%                     | 20%                     |

The composition of cumulative temporary differences and the related deferred income tax assets and liabilities in respect of items for which deferred income tax has been provided at 31 December 2017 and 31 December 2016 using the enacted tax rates are as follows:

|   | <b>Cumulative temporary difference</b> |                         | <b>Deferred tax assets/(liabilities)</b> |                         |
|---|--|-------------------------|--|-------------------------|
|   | <b>31 December 2017</b>                | <b>31 December 2016</b> | <b>31 December 2017</b>                  | <b>31 December 2016</b> |
| Provision for employment termination benefits | 68.397.518                             | 59.489.466              | 15.948.789                               | 13.078.606              |
| Inventories                                   | 5.744.295                              | 15.419.861              | 1.149.694                                | 4.473.861               |
| Doubtful receivable provision                 | --                                     | 820.160                 | --                                       | 309.529                 |
| Consignment sales adjustment                  | 5.565.019                              | 4.350.419               | 1.224.304                                | 870.084                 |
| Finance income                                | 1.807.636                              | 466.935                 | 397.680                                  | 93.387                  |
| Other, net                                    | 83.699.357                             | 52.631.674              | 19.695.313                               | 16.397.708              |
| <b>Deferred tax assets</b>                    |  |                         | <b>38.415.780</b>                        | <b>35.223.175</b>       |
| Property, plant and equipment                 | 249.348.549                            | 231.375.290             | (81.679.888)                             | (88.692.405)            |
| Other, net                                    | 139.746.303                            | 78.229.501              | (28.150.027)                             | (15.645.900)            |
| <b>Deferred tax liabilities</b>               |  |                         | <b>(109.829.915)</b>                     | <b>(104.338.305)</b>    |
| <b>Net deferred tax liabilities</b>           |  |                         | <b>(71.414.135)</b>                      | <b>(69.115.130)</b>     |

##### Deferred Taxes

|  | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|--|--|--|
| <b>Balance at 1 January</b>            | <b>(69.115.130)</b>                    | <b>(54.339.109)</b>                    |
| Current year deferred tax income – net | 1.104.652                              | (8.641.438)                            |
| Charges to equity                      | 157.893                                | 2.138.363                              |
| Currency translation differences       | (3.561.550)                            | (8.272.946)                            |
| <b>Balance at 31 December</b>          | <b>(71.414.135)</b>                    | <b>(69.115.130)</b>                    |



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**NOTE 25 – EARNING PER SHARE**

Earnings per share for each class of share disclosed in the consolidated income statements is determined by dividing the net income attributable to that class of share by the weighted average number of shares of that class outstanding during the year.

|  | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|--|--|--|
| Net income attributable to equity holders of the parent        | 165.102.073                            | 143.080.801                            |
| Weighted average number of ordinary shares                     | 19.452.907.600                         | 19.452.907.600                         |
| Per 1.000 units of common stocks                               | 8,49                                   | 7,36                                   |
| <br>   |  |  |
| Earning per share from continuing operations                   |  |  |
| Net income attributable to equity holders of the parent        | 163.315.369                            | 152.433.131                            |
| Weighted average number of ordinary shares                     | 19.452.907.600                         | 19.452.907.600                         |
| Per 1.000 units of common stocks                               | 8,40                                   | 7,84                                   |
| <br>   |  |  |
| Earning per share from discontinuing operations                |  |  |
| Net income/(loss) attributable to equity holders of the parent | 1.786.704                              | (9.352.330)                            |
| Weighted average number of ordinary shares                     | 19.452.907.600                         | 19.452.907.600                         |
| Per 1.000 units of common stocks                               | 0,09                                   | (0,48)                                 |

Nominal values of ordinary shares for the years ended 31 December 2017 and 2016 are assumed to be Kr 1 each.

**NOTE 26 – RELATED PARTY DISCLOSURES**

|  |                         |                         |
|--|-------------------------|-------------------------|
| <b>Bank balances:</b>                                | <b>31 December 2017</b> | <b>31 December 2016</b> |
| Akbank T.A.Ş. – demand deposits                      | 1.316.653               | 96.253                  |
|  | <b>1.316.653</b>        | <b>96.253</b>           |
| <br>   |                         |                         |
|  | <b>31 December 2017</b> | <b>31 December 2016</b> |
| Akbank T.A.Ş. – bank borrowings                      | 142.989.264             | 60.619.766              |
|  | <b>142.989.264</b>      | <b>60.619.766</b>       |
| <br>   |                         |                         |
| <b>Derivative instruments:</b>                       | <b>31 December 2017</b> | <b>31 December 2016</b> |
| Akbank T.A.Ş.  | 5.482.795               | --                      |
|  | <b>5.482.795</b>        | <b>--</b>               |
| <br>   |                         |                         |
| <b>Due from related party:</b>                       | <b>31 December 2017</b> | <b>31 December 2016</b> |
| Brisa Bridgestone Sabancı Lastik Sanati ve Tic. A.Ş. | 26.716.953              | 20.291.969              |
| Akçansa  | 827.263                 | --                      |
| Enejisa Enerji Üretim A.Ş.                           | 173.735                 | 61.092                  |
| Sabancı Üniversitesi                                 | 99.427                  | 488.403                 |
| Other  | 100.907                 | 103.322                 |
|  | <b>27.918.285</b>       | <b>20.944.786</b>       |
| <br>   |                         |                         |
| <b>Due to related party:</b>                         | <b>31 December 2017</b> | <b>31 December 2016</b> |
| Enejisa Enerji Üretim A.Ş.                           | 4.569.248               | 3.883.122               |
| Sabancı Üniversitesi                                 | 1.891.031               | --                      |
| Bimsa Ulus. İş, Bilgi ve Yönetim Sistemleri A.Ş.     | 1.219.629               | 718.024                 |
| Brisa Bridgestone Sabancı Lastik Sanati ve Tic. A.Ş. | 67.211                  | 42.831                  |
| Enerji Doğalgaz Toptan Satış A.Ş.                    | --                      | 1.758.105               |
| Teknosa İç ve Dış Ticaret A.Ş.                       | 156.947                 | --                      |
| Other  | 37.643                  | 71.183                  |
|  | <b>7.941.709</b>        | <b>6.473.265</b>        |

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**NOTE 26 – RELATED PARTY DISCLOSURES (continued)**

| <b>Product sales:</b>                                | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|--|--|--|
| Brisa Bridgestone Sabancı Lastik Sanati ve Tic. A.Ş. | 76.117.789                             | 58.047.251                             |
| Other  | 1.167.784                              | --                                     |
|  | <b>77.285.573</b>                      | <b>58.047.251</b>                      |

| <b>Service sales:</b>          | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|--------------------------------|--|--|
| Enerjisa Enerji Üretim A.Ş.    | 606.880                                | 198                                    |
| Hacı Ömer Sabancı Holding A.Ş. | 9.281                                  | 70.458                                 |
|                                | <b>616.161</b>                         | <b>70.656</b>                          |

Service sales arise from invoicing of common services incurred for the above companies which operate in the same area.

| <b>Product purchase:</b>                         | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|--|--|--|
| Enerjisa Enerji Üretim A.Ş.                      | 46.570.658                             | 41.868.673                             |
| Bimsa Ulus. İş, Bilgi ve Yönetim Sistemleri A.Ş. | 379.777                                | 28.537                                 |
| Sabancı Üniversitesi                             | 39.910                                 | --                                     |
| Enerjisa Doğalgaz Toptan Satış A.Ş.              | --                                     | 15.443.599                             |
|  | <b>46.990.345</b>                      | <b>57.340.809</b>                      |

| <b>Service received:</b>                         | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|--|--|--|
| Aksigorta  | 6.386.927                              | 3.293.270                              |
| Bimsa Ulus. İş, Bilgi ve Yönetim Sistemleri A.Ş. | 4.194.028                              | 4.742.526                              |
| AvivaSA Emeklilik ve Hayat A.Ş.                  | 411.773                                | 453.786                                |
| Other  | 132.648                                | 564.985                                |
|  | <b>11.125.376</b>                      | <b>9.054.567</b>                       |

| <b>Property, plant and equipment purchases:</b>  | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|--|--|--|
| Bimsa Ulus. İş, Bilgi ve Yönetim Sistemleri A.Ş. | 445.149                                | 357.578                                |
| Sabancı Üniversitesi                             | 133.066                                | --                                     |
| Teknosa İç Ve Dış Tic. A.Ş.                      | --                                     | 17.723                                 |
| Other  | 6.908                                  | 3.517                                  |
|  | <b>585.063</b>                         | <b>378.818</b>                         |

| <b>Interest income:</b> | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|-------------------------|--|--|
| Akbank T.A.Ş.           | 778.614                                | 224.098                                |
|                         | <b>778.614</b>                         | <b>224.098</b>                         |

| <b>Interest expense:</b> | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|--------------------------|--|--|
| Akbank T.A.Ş.            | 6.717.739                              | 3.160.104                              |
|                          | <b>6.717.739</b>                       | <b>3.160.104</b>                       |

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**NOTE 26 – RELATED PARTY DISCLOSURES (continued)**

|  | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|--|--|--|
| <b>Foreign exchange gain /(losses), net</b>      |  |  |
| Akbank T.A.Ş.                                    | 5.457                                  | 1.481.024                              |
|  | <b>5.457</b>                           | <b>1.481.024</b>                       |
| <b>Rent expense</b>                              |  |  |
| Sabancı Holding                                  | --                                     | 183.606                                |
|  | <b>--</b>                              | <b>183.606</b>                         |
| <b>Rent income</b>                               |  |  |
| Bimsa Ulus. İş, Bilgi ve Yönetim Sistemleri A.Ş. | 65.687                                 | 65.600                                 |
| Other  | --                                     | 25.157                                 |
|  | <b>65.687</b>                          | <b>90.757</b>                          |
| <b>Donations</b>                                 |  |  |
| Sabancı Üniversitesi                             | 12.252.120                             | 7.499.280                              |
|  | <b>12.252.120</b>                      | <b>7.499.280</b>                       |

**Transactions with key management personnel:**

The Group defined its top management as board of directors, the president (CEO) and vice presidents, and the general managers of the subsidiaries.

Details of the remunerations provided by the Group for 2017 and 2016 are as follows:

|  | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
|--|--|--|
| Short-term employee benefits                       | 14.880.828                             | 12.084.032                             |
| Employee termination benefits due to remunerations | --                                     | 354.053                                |
| Post-employment benefits                           | 477.009                                | 356.472                                |
|  | <b>15.357.837</b>                      | <b>12.794.557</b>                      |

**Security and guarantee letters given:**

**31 December 2017**

None.

**31 December 2016**

| <b>Related parties</b> | <b>Amount</b> | <b>Currency</b> | <b>Detail</b>  | <b>Bank</b> |
|------------------------|---------------|-----------------|----------------|-------------|
| Kordsa Brazil          | 1.563.000     | US Dollar       | Loan Guarantee | IFC         |

## Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries

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#### NOTE 27 - INTERESTS IN OTHER ENTITIES

Financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below:

| Subsidiaries           | 31 December 2017           |  |  |   |
|------------------------|----------------------------|--|--|---|
|                        | Non-controlling interest % | Net profit/loss attributable to non-controlling interest | Profit/(loss) allocated to non-controlling interests | Dividend distributed to non-controlling interests |
| PT Indo Kordsa Tbk (*) | %39,30                     | 51.883.559   | 361.079.655  | 23.275.202  |
| Other                  |                            | (4.762.613)  | 9.941.245  |   |
| <b>Total</b>           |                            | <b>47.120.946</b>  | <b>371.020.900</b>                                   |   |

| Subsidiaries           | 31 December 2016           |  |  |   |
|------------------------|----------------------------|--|--|---|
|                        | Non-controlling interest % | Net profit/loss attributable to non-controlling interest | Profit/(loss) allocated to non-controlling interests | Dividend distributed to non-controlling interests |
| PT Indo Kordsa Tbk (*) | %39,79                     | 40.575.498   | 309.527.602  | 15.358.848  |
| Other                  |                            | (5.543.428)  | 8.022.954  |   |
| <b>Total</b>           |                            | <b>35.032.070</b>  | <b>317.550.556</b>                                   |   |

(\*) Consists of consolidated financial statements of PT Indo Kordsa Tbk, PT Indo Kordsa Polyester and Thai Indo Kordsa Co., Ltd.

The financial information of PT Indo Kordsa Tbk before the Group's consolidation adjustments and eliminations is as follows:

| Summary of statement of financial position                | PT Indo Kordsa Tbk   |                      |
|---|----------------------|----------------------|
|   | 31 December 2017     | 31 December 2016     |
| Cash and cash equivalents                                 | 12.656.926           | 34.484.144           |
| Other current assets                                      | 356.058.791          | 304.410.604          |
| Non-current assets  | 743.568.836          | 671.070.440          |
| <b>Total assets</b>                                       | <b>1.112.284.553</b> | <b>1.009.965.188</b> |
| Short-term borrowings                                     | 23.159.891           | 43.002.199           |
| Other short-term liabilities                              | 114.473.522          | 131.771.556          |
| Long-term borrowings                                      | 101.309.879          | 100.261.830          |
| Other long-term liabilities                               | 62.523.359           | 52.641.278           |
| <b>Total liabilities</b>                                  | <b>301.466.651</b>   | <b>327.676.863</b>   |
| <b>Total equity</b>                                       | <b>810.817.902</b>   | <b>682.288.325</b>   |
| <b>Total equity attributable to owners of the Company</b> | <b>740.919.682</b>   | <b>619.101.018</b>   |
| <b>Non-controlling interest (*)</b>                       | <b>69.898.220</b>    | <b>63.187.307</b>    |

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#### NOTE 27 - INTERESTS IN OTHER ENTITIES (continued)

##### Summary statement of profit and loss:

|                                       | PT Indo Kordsa Tbk             |                                |
|---------------------------------------|--------------------------------|--------------------------------|
|                                       | 1 January-<br>31 December 2017 | 1 January-<br>31 December 2016 |
| Revenue                               | 860.285.984                    | 631.302.161                    |
| Cost of sales                         | (642.457.930)                  | (470.649.823)                  |
| Depreciation and amortization expense | (38.519.832)                   | (14.082.615)                   |
| Operating income                      | 140.679.356                    | 112.554.578                    |
| Finance income /(expense), net        | (8.660.123)                    | (10.580.469)                   |
| Profit before tax                     | 132.019.233                    | 101.974.109                    |
| Tax expenses                          | (36.636.140)                   | (30.008.423)                   |
| Non-controlling interests (*)         | (44.842.494)                   | (34.153.368)                   |
| Net period income                     | 50.540.599                     | 37.812.319                     |

(\*) Arises from the consolidation of Thai Indo Kordsa Co., Ltd. under PT Indo Kordsa Tbk.

#### NOTE 28 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

##### Financial risk management

##### *Financial risk factors*

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

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Financial risk management is carried out by Finance department of Kordsa Global under policies approved by the board of directors. Finance department identifies, evaluates and hedges financial risks in close co-operation with the group's operating units.

##### (a) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, the Group aims at maintaining flexibility in funding by keeping committed credit lines available.

The table below depicts the cash outflows the Group will pay for the financial liabilities in the balance sheet in accordance with the remaining maturities. The amounts in the table are contractual and non-discounted. The Group performs its liquidity risk management by considering expected non-discounted cash flows.

The analysis of the Group's financial liabilities with respect to their maturities as of 31 December 2017 and 2016 is as follows:

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#### NOTE 28 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (continued)

##### (a) Liquidity risk (continued)

##### Non-derivative financial liabilities <sup>(1)(2)</sup>:

|                         | Carrying value     | Contractual cash flow | Less than 3 months | 3-12 months        | 1-5 years          | Over 5 years |
|-------------------------|--------------------|-----------------------|--------------------|--------------------|--------------------|--------------|
| <b>31 December 2017</b> |                    |                       |                    |                    |                    |              |
| Financial liabilities   | 632.304.026        | 731.164.596           | 353.561.593        | 165.818.406        | 211.784.597        | --           |
| Trade payables          | 312.393.072        | 312.393.072           | 312.393.072        | --                 | --                 | --           |
| Other payables          | 370.530            | 15.499.146            | 15.499.146         | --                 | --                 | --           |
|                         | <b>945.067.628</b> | <b>1.059.056.814</b>  | <b>681.453.811</b> | <b>165.818.406</b> | <b>211.784.597</b> | <b>--</b>    |
|                         |                    |                       |                    |                    |                    |              |
|                         | Carrying value     | Contractual cash flow | Less than 3 months | 3-12 months        | 1-5 years          | Over 5 years |
| <b>31 December 2016</b> |                    |                       |                    |                    |                    |              |
| Financial liabilities   | 535.007.412        | 596.196.264           | 96.539.194         | 321.348.370        | 178.308.700        | --           |
| Trade payables          | 284.235.131        | 284.872.021           | 281.356.144        | 3.515.877          | --                 | --           |
| Other payables          | 1.919.735          | 10.672.596            | 9.388.488          | 1.284.108          | --                 | --           |
|                         | <b>821.162.278</b> | <b>891.740.881</b>    | <b>387.283.826</b> | <b>326.148.355</b> | <b>178.308.700</b> | <b>--</b>    |

(1) Maturity analyses have been applied solely to financial instruments and exclude legal liabilities.

(2) The aforementioned cash flows are contractual and non-discounted amounts. Since the discount amounts for the balances with a maturity of less than 3 months are immaterial, the discounted amounts are equal to the carrying value.

##### (b) Market risk

##### Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities. Group utilises its cash by making time deposits and by purchasing company bonds. To keep these exposures at a minimum level, the Group tries to borrow at the most suitable rates.

The interest rate profile of the Group interest-bearing financial instruments is as follows:

| Variable interest financial instruments | 31 December 2017 | 31 December 2016 |
|---|------------------|------------------|
| Financial liabilities                   | 130.342.246      | 161.800.405      |

Various scenarios are simulated by the Group for floating rate borrowings taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. According to these scenarios:

At 31 December 2017, if interest rates on US Dollar denominated borrowings had been 10% higher/lower with all other variables held constant, profit before tax for the year would have been lower/higher by TL 1.390.263 (2016: TL 1.835.652), mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31 December 2017, there is no variable interest rate borrowings in EUR (2016: TL 405).

##### Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Turkish Lira. Foreign Exchange risk is monitored with an analysis of foreign exchange positions.

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#### NOTE 28 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (continued)

##### (b) Market risk (continued)

###### Derivative financial instruments

The derivative financial instruments of the Group comprise foreign currency forward contracts. The Group entered into foreign currency forward transactions with due date 2017 in order to manage the risks emerging from the sales transactions which are expected to occur within 12 months following the reporting date. The carrying values of the items hedged against the non-financial risk will be adjusted once the expected sales will take place. The Group also entered into foreign currency forward transactions with due date 2016 in order to hedge its trade receivables and payables from the effects of the changes in foreign currency exchange rates.

The Group also uses fair value hedge with its derivative portfolio to hedge its trade receivables and payables from the effects of the exchange rate differences in the markets. According to this, the net-off figures of the exchange rate change in the balance sheet and the exchange rate change of the derivative portfolio are presented in the income statement and the effectiveness of the hedge accounting is evaluated at each balance sheet date.

##### 31 December 2017:

As of 27 November 2017, Group has executed a EUR/TL foreign currency swap for the principal and interest repayment of TL 94,000,000 with a maturity 3 months and an interest rate of 15,75%. In this context, principal repayments to be made on 26 February 2018 were fixed at EUR 20,000,000, interest payments at 4,70% interest rate and EUR/TL: 4,8604. The fair value of this transaction is TL 5.482.795.

##### Foreign exchange forward contracts:

| 31 December 2016   | Average Rate | Foreign Currency (TL) | Contract Value (USD) | Fair Value (TL)  |
|--------------------|--------------|-----------------------|----------------------|------------------|
| USD buy EUR sell   |              |                       |                      |                  |
| Less than 3 months | 1,1261       | 11.129.700            | 3.378.400            | 736.621          |
| Between 3-6 months | 1,1296       | 7.419.800             | 2.259.100            | 484.894          |
| <b>Total</b>       |              |                       |                      | <b>1.221.515</b> |

##### Hedges of net investments in foreign operations:

In case there are derivative financial instruments or non-derivative financial liabilities designated to hedge against the financial risks resulting from net investments in foreign operations;

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item. Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss in the same way as exchange differences relating to the foreign operation.

The Company subjected the net investment in its foreign subsidiaries and the US Dollar and Euro borrowings in other subsidiaries to the hedge of a net investment in foreign operations. The Company accounted for the foreign exchange losses arising from the related borrowings amounting to TL 45.672.408 (31 December 2016: TL 21.813.684) under Currency Translation Reserves in Equity in accordance with TAS 39 and TFRS Interpretation 16.

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**NOTE 28 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (continued)**

**Foreign currency position**

Group's assets and liabilities denominated in foreign currencies at 31 December 2017 and 2016 are as follows:

|                                      | <b>31 December 2017</b> | <b>31 December 2016</b> |
|--------------------------------------|-------------------------|-------------------------|
| Assets                               | 465.556.999             | 118.138.878             |
| Liabilities                          | (472.718.973)           | (292.215.837)           |
| <b>Net foreign currency position</b> | <b>(7.161.974)</b>      | <b>(174.076.959)</b>    |



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**NOTE 28 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (continued)**

**31 December 2017**

| <b>Assets:</b>   | <b>Total TL equivalent</b> | <b>US Dollars (*)</b> | <b>Euro (*)</b>   | <b>Thai Baht (*)</b> | <b>Indonesian Rupiah ('000) (*)</b> | <b>Brazilian Real (*)</b> | <b>Other TL equivalent</b> |
|--|----------------------------|-----------------------|-------------------|----------------------|-------------------------------------|---------------------------|----------------------------|
| Trade receivables  | 181.228.546                | 15.520.175            | 22.166.049        | --                   | 83.520.171                          | --                        | --                         |
| Cash and cash equivalent   | 3.347.771                  | 163.831               | 300.988           | --                   | 4.916.222                           | --                        | 1.982                      |
| Other monetary receivables and assets                                      | 1.708.451                  | --                    | --                | --                   | 1.491.900                           | --                        | --                         |
| Other non- monetary receivables and assets                                 | 25.718.156                 | --                    | 1.677             | --                   | 96.992.448                          | --                        | --                         |
| <b>Current assets</b>  | <b>212.002.924</b>         | <b>15.684.006</b>     | <b>22.468.714</b> | <b>--</b>            | <b>186.920.740</b>                  | <b>--</b>                 | <b>1.982</b>               |
| Non-current asset held for sale  | --                         | --                    | --                | --                   | --                                  | --                        | --                         |
| Other monetary receivables and assets                                      | --                         | --                    | --                | --                   | --                                  | --                        | --                         |
| <b>Non-current assets</b>  | <b>--</b>                  | <b>--</b>             | <b>--</b>         | <b>--</b>            | <b>--</b>                           | <b>--</b>                 | <b>--</b>                  |
| <b>Total assets (a)</b>  | <b>212.002.924</b>         | <b>15.684.006</b>     | <b>22.468.714</b> | <b>--</b>            | <b>186.920.740</b>                  | <b>--</b>                 | <b>1.982</b>               |
| <b>Liabilities:</b>  |                            |                       |                   |                      |                                     |                           |                            |
| Trade payables   | 119.740.271                | 23.530.995            | 5.012.971         | --                   | 19.985.917                          | 85.260                    | 2.659.229                  |
| Financial liabilities  | 336.781.635                | 22.111.886            | 55.150.259        | --                   | 17.977.739                          | --                        | --                         |
| Other monetary payable and liabilities                                     | 2.370.858                  | 6.332                 | --                | --                   | 8.429.916                           | --                        | --                         |
| <b>Current liabilities</b>   | <b>458.892.764</b>         | <b>45.649.213</b>     | <b>60.163.230</b> | <b>--</b>            | <b>46.393.571</b>                   | <b>85.260</b>             | <b>2.659.229</b>           |
| Financial liabilities  | 13.826.208                 | --                    | --                | --                   | 49.657.695                          | --                        | --                         |
| Other monetary receivables and assets                                      | --                         | --                    | --                | --                   | --                                  | --                        | --                         |
| <b>Non-current liabilities</b>   | <b>13.826.208</b>          | <b>--</b>             | <b>--</b>         | <b>--</b>            | <b>49.657.695</b>                   | <b>--</b>                 | <b>--</b>                  |
| <b>Total liabilities (b)</b>   | <b>472.718.972</b>         | <b>45.649.213</b>     | <b>60.163.230</b> | <b>--</b>            | <b>96.051.266</b>                   | <b>85.260</b>             | <b>2.659.229</b>           |
| Off-balance sheet derivative assets (c)                                    | 253.554.075                | 181.191               | 56.000.000        | --                   | --                                  | --                        | --                         |
| Off-balance sheet derivative liabilities (d)                               | --                         | --                    | --                | --                   | --                                  | --                        | --                         |
| <b>Net foreign currency asset /(liability) position</b>                    | <b>(7.161.974)</b>         | <b>(29.783.316)</b>   | <b>18.305.484</b> | <b>--</b>            | <b>90.869.474</b>                   | <b>(85.260)</b>           | <b>(2.657.247)</b>         |
| <b>Fair value of financial instruments used for foreign Exchange hedge</b> | <b>5.893.324</b>           |                       |                   |                      |                                     |                           |                            |
| Hedges amount of foreign currency assets                                   | --                         | --                    | --                | --                   | --                                  | --                        | --                         |
| Hedges amount of foreign currency liabilities                              | 253.554.075                | 181.191               | 56.000.000        | --                   | --                                  | --                        | --                         |

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**NOTE 28 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (continued)**

**31 December 2016**

| <b>Assets:</b>  | <b>Total TL equivalent</b> | <b>US Dollars (*)</b> | <b>Euro (*)</b>     | <b>Thai Baht (*)</b> | <b>Indonesian Rupiah ('000) (*)</b> | <b>Brazilian Real (*)</b> | <b>Other TL equivalent</b> |
|---|----------------------------|-----------------------|---------------------|----------------------|-------------------------------------|---------------------------|----------------------------|
| Trade receivables   | 165.674.818                | 15.985.829            | 23.518.381          | --                   | 85.158.384                          | --                        | --                         |
| Cash and cash equivalent  | 2.102.887                  | 222.838               | 15.426              | --                   | 4.806.689                           | --                        | 2.465                      |
| Other monetary receivables and assets                               | 4.135.384                  | --                    | -                   | --                   | 379.994                             | --                        | --                         |
| Other non- monetary receivables and assets                          | 15.176.389                 | --                    | 261.489             | --                   | 68.861.500                          | --                        | 18.429                     |
| <b>Current assets</b>   | <b>187.089.479</b>         | <b>16.208.667</b>     | <b>23.795.296</b>   | <b>--</b>            | <b>159.206.568</b>                  | <b>--</b>                 | <b>20.894</b>              |
| Non-current asset held for sale                                     | --                         | --                    | --                  | --                   | --                                  | --                        | --                         |
| Other monetary receivables and assets                               | (68.950.601)               | --                    | 22.223              | --                   | 6.618.352                           | (65.536.272)              | --                         |
| <b>Non-current assets</b>   | <b>(68.950.601)</b>        | <b>--</b>             | <b>22.223</b>       | <b>--</b>            | <b>6.618.352</b>                    | <b>(65.536.272)</b>       | <b>--</b>                  |
| <b>Total assets (a)</b>   | <b>118.138.878</b>         | <b>16.208.667</b>     | <b>23.817.519</b>   | <b>--</b>            | <b>165.824.920</b>                  | <b>(65.536.272)</b>       | <b>20.894</b>              |
| <b>Liabilities:</b>   |                            |                       |                     |                      |                                     |                           |                            |
| Trade payables  | 104.307.444                | 19.169.550            | 7.073.442           | --                   | 32.242.959                          | --                        | 1.876.685                  |
| Financial liabilities   | 326.463.897                | 4.577.070             | 81.026.476          | --                   | 38.194.281                          | --                        | --                         |
| Other monetary payable and liabilities                              | 5.568.120                  | 156.646               | 9.711               | --                   | 18.756.830                          | --                        | 67.978                     |
| <b>Current liabilities</b>  | <b>436.339.461</b>         | <b>23.903.266</b>     | <b>88.109.629</b>   | <b>--</b>            | <b>89.194.071</b>                   | <b>--</b>                 | <b>1.944.663</b>           |
| Financial liabilities   | 64.270.887                 | --                    | 16.340.000          | --                   | 13.936.826                          | --                        | --                         |
| Other monetary receivables and assets                               | --                         | --                    | --                  | --                   | --                                  | --                        | --                         |
| <b>Non-current liabilities</b>                                      | <b>64.270.887</b>          | <b>--</b>             | <b>16.340.000</b>   | <b>--</b>            | <b>13.936.826</b>                   | <b>--</b>                 | <b>--</b>                  |
| <b>Total liabilities (b)</b>  | <b>500.610.348</b>         | <b>23.903.266</b>     | <b>104.449.629</b>  | <b>--</b>            | <b>103.130.896</b>                  | <b>--</b>                 | <b>1.944.663</b>           |
| Off-balance sheet derivative assets (c)                             | --                         | --                    | --                  | --                   | --                                  | --                        | --                         |
| Off-balance sheet derivative liabilities (d)                        | --                         | --                    | --                  | --                   | --                                  | --                        | --                         |
| <b>Net foreign currency asset /(liability) position</b>             | <b>(174.076.959)</b>       | <b>(7.512.708)</b>    | <b>(24.632.110)</b> | <b>--</b>            | <b>62.694.023</b>                   | <b>(65.536.272)</b>       | <b>(1.923.769)</b>         |
| Net asset/(liabilities) position of foreign currency monetary items | (397.647.859)              | (7.694.599)           | (80.893.599)        | --                   | (6.167.477)                         | (65.536.272)              | (1.942.199)                |

(\*) The amounts are denominated in the related currency.

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**NOTE 28 – NATURE AND LEVELE OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (continued)**

TL equivalents of the foreign currencies where the Group operates are as follows:

| <b>Closing rates</b>           | <b>31 December 2017</b> | <b>31 December 2016</b> |
|--------------------------------|-------------------------|-------------------------|
| US Dollars                     | 3,7719                  | 3,5192                  |
| Euro                           | 4,5155                  | 3,7099                  |
| Indonesian Rupiah (1000 units) | 0,2784                  | 0,2619                  |
| Brezilian Real                 | 1,1402                  | 1,0798                  |
| Thai Baht                      | 0,1154                  | 0,0982                  |
| Egyptian Pound                 | 0,2125                  | 0,1897                  |

| <b>Average rates</b>           | <b>31 December 2017</b> | <b>31 December 2016</b> |
|--------------------------------|-------------------------|-------------------------|
| US Dollars                     | 3,6477                  | 3,0213                  |
| Euro                           | 4,1164                  | 3,3398                  |
| Indonesian Rupiah (1000 units) | 0,2691                  | 0,2270                  |
| Brezilian Real                 | 1,1428                  | 0,8657                  |
| Thai Baht                      | 0,1075                  | 0,0856                  |
| Egyptian Pound                 | 0,2076                  | 0,3124                  |

Foreign currency position as of 31 December 2017 and 2016 in regard to the 10% changes in foreign currency rates is depicted in the table below:

|   | <b>Profit / (Loss)</b>     |                        | <b>Equity</b>              |                        |
|---|----------------------------|------------------------|----------------------------|------------------------|
|   | <b>Strengthening of TL</b> | <b>Weakening of TL</b> | <b>Strengthening of TL</b> | <b>Weakening of TL</b> |
| <b>31 December 2017</b>                               |                            |                        |                            |                        |
| <b>Increase/(decrease) 10% of USD parity</b>          |                            |                        |                            |                        |
| 1-US Dollar net asset / liability                     | (11.233.969)               | 11.233.969             | 41.373.078                 | (41.373.078)           |
| 2-Hedged portion of US Dollar amounts(-)              | --                         | --                     | --                         | --                     |
| <b>3-Net effect of US Dollar (1+2)</b>                | <b>(11.233.969)</b>        | <b>11.233.969</b>      | <b>41.373.078</b>          | <b>(41.373.078)</b>    |
| <b>Increase/(decrease) 10% of EUR parity</b>          |                            |                        |                            |                        |
| 4-EUR net asset / liability                           | 8.265.841                  | (8.265.841)            | --                         | --                     |
| 5-Hedged portion of EUR amounts(-)                    | --                         | --                     | --                         | --                     |
| <b>6-Net effect of EUR (4+5)</b>                      | <b>8.265.841</b>           | <b>(8.265.841)</b>     | <b>--</b>                  | <b>--</b>              |
| <b>Increase/(decrease) 10% of other parities</b>      |                            |                        |                            |                        |
| 7-Other foreign currency net asset / liability        | 2.251.931                  | (2.251.931)            | --                         | --                     |
| 8-Hedged portion of other foreign currency amounts(-) | --                         | --                     | --                         | --                     |
| <b>9-Net effect of other foreign currencies (7+8)</b> | <b>2.251.931</b>           | <b>(2.251.931)</b>     | <b>--</b>                  | <b>--</b>              |
| <b>TOTAL (3+6+9)</b>                                  | <b>(716.197)</b>           | <b>716.197</b>         | <b>41.373.078</b>          | <b>(41.373.078)</b>    |

|   | <b>Profit / (Loss)</b>     |                        | <b>Equity</b>              |                        |
|---|----------------------------|------------------------|----------------------------|------------------------|
|   | <b>Strengthening of TL</b> | <b>Weakening of TL</b> | <b>Strengthening of TL</b> | <b>Weakening of TL</b> |
| <b>31 December 2016</b>                               |                            |                        |                            |                        |
| <b>Increase/(decrease) 10% of USD parity</b>          |                            |                        |                            |                        |
| 1-US Dollar net asset / liability                     | (2.643.872)                | 2.643.872              | 39.422.359                 | (39.422.359)           |
| 2-Hedged portion of US Dollar amounts(-)              | --                         | --                     | --                         | --                     |
| <b>3-Net effect of US Dollar (1+2)</b>                | <b>(2.643.872)</b>         | <b>2.643.872</b>       | <b>39.422.359</b>          | <b>(39.422.359)</b>    |
| <b>Increase/(decrease) 10% of EUR parity</b>          |                            |                        |                            |                        |
| 4-EUR net asset / liability                           | (9.138.266)                | 9.138.266              | --                         | --                     |
| 5-Hedged portion of EUR amounts(-)                    | --                         | --                     | --                         | --                     |
| <b>6-Net effect of EUR (4+5)</b>                      | <b>(9.138.266)</b>         | <b>9.138.266</b>       | <b>--</b>                  | <b>--</b>              |
| <b>Increase/(decrease) 10% of other parities</b>      |                            |                        |                            |                        |
| 7-Other foreign currency net asset / liability        | (5.625.558)                | 5.625.558              | --                         | --                     |
| 8-Hedged portion of other foreign currency amounts(-) | --                         | --                     | --                         | --                     |
| <b>9-Net effect of other foreign currencies (7+8)</b> | <b>(5.625.558)</b>         | <b>5.625.558</b>       | <b>--</b>                  | <b>--</b>              |
| <b>TOTAL (3+6+9)</b>                                  | <b>(17.407.696)</b>        | <b>17.407.696</b>      | <b>39.422.359</b>          | <b>(39.422.359)</b>    |

## Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries

### Notes to Consolidated Financial Statements

#### As At and for the Year Ended 31 December 2017

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

#### NOTE 28 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (continued)

Export and import balances from Turkey as of 31 December 2017 and 2016 is as follows:

|                     | 31 December 2017 |                    | 31 December 2016                       |  |
|---------------------|------------------|--------------------|--|--|
|                     | Original Amount  | TL Equivalent      | Original Amount                        | TL Equivalent                          |
| Euro                | 131.929.852      | 542.303.927        | 115.185.040                            | 383.423.148                            |
| US Dollars          | 67.933.118       | 247.596.170        | 79.528.013                             | 241.124.588                            |
| TL                  | 27.678.685       | 27.678.685         | --                                     | --                                     |
| <b>Total export</b> |                  | <b>817.578.782</b> | <b>--</b>                              | <b>624.547.736</b>                     |
|                     |                  |                    | <b>1 January-<br/>31 December 2017</b> | <b>1 January-<br/>31 December 2016</b> |
| <b>Total import</b> |                  |                    | 555.055.444                            | 431.954.850                            |

#### (c) Funding risk

The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders. The borrowings of the Group are from financially strong various financial institutions.

#### (d) Credit risk

Credit risk arises from deposits with banks, as well as credit exposures to customers, including outstanding receivables.

Ownership of financial assets involves the risk that counter parties may be unable to meet the terms of their agreements. Group management covers these risks by limiting the aggregate risk from any individual counter party and if necessary by obtaining guarantee.

Group uses internal credit control procedure, credit rating system and internal control policy for the credit risk management of receivables from customers. According to these procedures, Group approves, increases or decreases individual customer credit limits for high balanced customers (excluding related parties). The credit limits are set by taking into account the financial position, past payment performance, the position of trade relations, growth potential and management style of the customers. These limits are annually revised and letter of guarantees, mortgages and other guarantees are received for the high risk customers.

#### Disclosures on the credit quality of financial assets

As at 31 December 2017 and 2016, banks, where the cash and cash equivalents within the financial assets that are neither past due nor impaired are kept; mainly have high credit and parties in the trade receivables comprise of the customers/ related parties that are worked with for a long time and without significant collection problems.

## Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries

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#### NOTE 28 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (continued)

The Grup’s credit risk has been shown at below:

| 31 December 2017   | Receivables       |                    |                   |             |                  |                  | Bank Deposits     |  |
|--|-------------------|--------------------|-------------------|-------------|------------------|------------------|-------------------|--|
|  | Trade Receivables |                    | Other Receivables |             | Derivatives      | Related Party    | Third Party       |  |
|  | Related Party     | Third Party        | Related Party     | Third Party |                  |                  |                   |  |
| <b>As of reporting date, credit risk exposure (A+B+C+D) (**)</b>   | <b>27.918.285</b> | <b>455.577.698</b> | --                | --          | <b>5.893.324</b> | <b>1.316.653</b> | <b>14.221.110</b> |  |
| - The part of maximum risk under guarantee with collateral   | --                | --                 | --                | --          | --               | --               | --                |  |
| <b>A.</b> Net book value of financial assets that are neither past due nor impaired                                      | 27.918.285        | 429.665.040        | --                | --          | --               | 1.316.653        | 14.221.110        |  |
| <b>B.</b> Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired | --                | 25.912.658         | --                | --          | --               | --               | --                |  |
| <b>C.</b> Net book value of impaired assets  | --                | --                 | --                | --          | --               | --               | --                |  |
| - Past due (gross carrying amount)   | --                | 1.729.331          | --                | --          | --               | --               | --                |  |
| - Impairment(-)  | --                | (1.729.331)        | --                | --          | --               | --               | --                |  |
| - The part under guarantee with collateral   | --                | --                 | --                | --          | --               | --               | --                |  |
| - Not past due (gross carrying amount))  | --                | --                 | --                | --          | --               | --               | --                |  |
| - Impairment (-)   | --                | --                 | --                | --          | --               | --               | --                |  |
| - The part under guarantee with collateral   | --                | --                 | --                | --          | --               | --               | --                |  |
| <b>D.</b> Off-balance sheet items with credit risk   | --                | --                 | --                | --          | --               | --               | --                |  |

| 31 December 2016   | Receivables       |                    |                       |                  |                  |               | Bank Deposits     |  |
|--|-------------------|--------------------|-----------------------|------------------|------------------|---------------|-------------------|--|
|  | Trade Receivables |                    | Other Receivables (*) |                  | Derivatives      | Related Party | Third Party       |  |
|  | Related Party     | Third Party        | Related Party         | Third Party      |                  |               |                   |  |
| <b>As of reporting date, credit risk exposure (A+B+C+D) (**)</b>   | <b>20.994.786</b> | <b>351.275.523</b> | --                    | <b>6.879.088</b> | <b>1.221.514</b> | <b>96.253</b> | <b>38.453.158</b> |  |
| - The part of maximum risk under guarantee with collateral   | --                | --                 | --                    | --               | --               | --            | --                |  |
| <b>A.</b> Net book value of financial assets that are neither past due nor impaired                                      | 20.994.786        | 318.915.069        | --                    | 6.879.088        | --               | 96.253        | 38.453.158        |  |
| <b>B.</b> Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired | --                | 32.360.454         | --                    | --               | --               | --            | --                |  |
| <b>C.</b> Net book value of impaired assets  | --                | --                 | --                    | --               | --               | --            | --                |  |
| - Past due (gross carrying amount)   | --                | 7.741.753          | --                    | --               | --               | --            | --                |  |
| - Impairment(-)  | --                | (7.741.753)        | --                    | --               | --               | --            | --                |  |
| - The part under guarantee with collateral   | --                | --                 | --                    | --               | --               | --            | --                |  |
| - Not past due (gross carrying amount))  | --                | --                 | --                    | --               | --               | --            | --                |  |
| - Impairment (-)   | --                | --                 | --                    | --               | --               | --            | --                |  |
| - The part under guarantee with collateral   | --                | --                 | --                    | --               | --               | --            | --                |  |
| <b>D.</b> Off-balance sheet items with credit risk   | --                | --                 | --                    | --               | --               | --            | --                |  |

(\*) Excludes taxes and other similar receivables.

(\*\*) Amounts are determined by ignoring received guarantees during the assessment of credibility.

## Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries

### Notes to Consolidated Financial Statements

As At and for the Year Ended 31 December 2017

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

#### NOTE 28 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (continued)

##### (d) Credit risk (continued)

The Group assumes that its receivables from the related parties including the ones which are overdue bear no risk of collection since it takes into account that such receivables are to be collected from the Group companies and that all of such receivables had been collected in the previous periods.

The Group did not make any provisions for doubtful receivables since the overdue receivables are to be collected from the corporate customers who did not delay any collections in the previous periods, and even if they delayed, eventually managed to pay their debts. In addition, when the maturity composition of the receivables which are not impaired are analyzed, it is seen that a little time longer than three months has passed since the maturity date of most of them.

The aging table of the Group's overdue but not impaired trade receivables including the due from related parties which takes into account the overdue terms is as follows:

|                     | <b>31 December 2017</b> | <b>31 December 2016</b> |
|---------------------|-------------------------|-------------------------|
| Less than 1 month   | 21.646.141              | 26.558.888              |
| Between 1-3 months  | 2.902.520               | 3.935.496               |
| Between 3-12 months | 1.363.997               | 1.866.070               |
|                     | <b>25.912.658</b>       | <b>32.360.454</b>       |

##### (e) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the group monitors capital on the basis of the debt/(total capital+net debt+non-controlling interest) ratio. Net debt is calculated as total borrowings (including borrowings as shown in the balance sheet) less cash and cash equivalents.

As at 31 December 2017 and 2016 Net debt/(Equity+net debt+non-controlling interest) ratio is:

|  | <b>31 December 2017</b> | <b>31 December 2016</b> |
|--|-------------------------|-------------------------|
| Total financial liabilities                      | 632.304.026             | 535.007.412             |
| Cash and cash equivalents                        | (15.561.882)            | (38.578.445)            |
| Net debt   | 616.742.144             | 496.428.967             |
| Equity   | 1.276.950.976           | 1.154.127.343           |
| Non-controlling interest                         | 371.020.900             | 317.550.556             |
| Equity+net debt+non-controlling interest         | 2.264.714.020           | 1.968.106.866           |
| Net debt/(Equity+non-controlling interest) ratio | 27%                     | 25%                     |

## Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries

### Notes to Consolidated Financial Statements

As At and for the Year Ended 31 December 2017

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#### NOTE 29 - FINANCIAL INSTRUMENTS

##### *Fair value of financial instruments*

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

Methodology and assumptions used for determining fair value of the financial instruments are as follows:

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group can realize in a current market exchange.

| 31 December 2017                 | Loans and<br>receivables<br>(cash and<br>cash<br>equivalents<br>included) | Available<br>for sale<br>investments | Financial<br>liabilities at<br>amortized cost | Derivative<br>financial<br>instruments | Carrying<br>value (*) | Note |
|----------------------------------|---|--------------------------------------|---|--|-----------------------|------|
| <b>Financial assets</b>          |   |                                      |   |  |                       |      |
| Cash and cash equivalents        | 15.561.882  | --                                   | --  | --                                     | 15.561.882            | 4    |
| Trade receivables                | 455.577.698   | --                                   | --  | --                                     | 455.477.698           | 7    |
| Receivables from related parties | 27.918.285  | --                                   | --  | --                                     | 27.918.285            | 26   |
| Financial investments            | --  | 411.103                              | --  | --                                     | 411.103               | 5    |
| Other financial assets (**)      | --  | --                                   | --  | --                                     | --                    | 8    |
| Derivative financial instruments | --  | --                                   | --  | 5.893.324                              | 5.893.324             | 27   |
| <b>Financial liabilities</b>     |   |                                      |   |  |                       |      |
| Borrowings                       | --  | --                                   | 632.304.026                                   | --                                     | 632.304.026           | 6    |
| Trade payables                   | --  | --                                   | 306.360.311                                   | --                                     | 306.360.311           | 7    |
| Payables to related parties      | --  | --                                   | 7.941.709                                     | --                                     | 7.941.709             | 26   |
| Other financial liabilities (**) | --  | --                                   | 11.783.607                                    | --                                     | 11.783.607            | 8    |

| 31 December 2016                 | Loans and<br>receivables<br>(cash and<br>cash<br>equivalents<br>included) | Available<br>for sale<br>investments | Financial<br>liabilities at<br>amortized cost | Derivative<br>financial<br>instruments | Carrying<br>value (*) | Note |
|----------------------------------|---|--------------------------------------|---|--|-----------------------|------|
| <b>Financial assets</b>          |   |                                      |   |  |                       |      |
| Cash and cash equivalents        | 38.578.445  | --                                   | --  | --                                     | 38.578.445            | 4    |
| Trade receivables                | 351.275.523   | --                                   | --  | --                                     | 351.275.523           | 7    |
| Receivables from related parties | 20.944.786  | --                                   | --  | --                                     | 20.944.786            | 26   |
| Financial investments            | --  | 386.091                              | --  | --                                     | 386.091               | 5    |
| Other financial assets (**)      | 6.879.088   | --                                   | --  | --                                     | 6.879.088             | 8    |
| Derivative financial instruments | --  | --                                   | --  | 1.221.515                              | 1.221.515             | 27   |
| <b>Financial liabilities</b>     |   |                                      |   |  |                       |      |
| Borrowings                       | --  | --                                   | 535.007.412                                   | --                                     | 535.007.412           | 6    |
| Trade payables                   | --  | --                                   | 277.761.866                                   | --                                     | 277.761.866           | 7    |
| Payables to related parties      | --  | --                                   | 6.473.265                                     | --                                     | 6.473.265             | 26   |
| Other financial liabilities (**) | --  | --                                   | 13.434.699                                    | --                                     | 13.434.699            | 8    |

(\*) The Group believes that the carrying values of the financial instruments approximate their fair values.

(\*\*) Excludes tax and other legal receivables and payables.

## **Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **As At and for the Year Ended 31 December 2017**

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#### **NOTE 29 - FINANCIAL INSTRUMENTS (continued)**

##### ***Monetary assets***

The fair values of balances denominated in foreign currencies, which are translated at period-end exchange rates to TL, are considered to approximate carrying values.

The fair values of certain financial assets carried at cost, including cash and amounts due from banks, are considered to approximate their respective carrying values due to their short-term nature.

The carrying values of trade receivables along with the related allowances for uncollectibility are estimated to be their fair values.

##### ***Monetary liabilities***

The fair values of bank borrowings and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

Since, long term foreign currency loans generally have floating rate, fair value is close to their book value. Fair value of long term bank loans are discounted amounts of contractual cash flows with the market interest rate (Note 6).

##### ***Fair value estimation***

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

- First level: The fair value of financial assets and financial liabilities with quoted market prices.
- Second level: The fair value of financial assets and financial liabilities are determined with direct or indirect observable inputs for the assets or liabilities other than quoted prices in market.
- Third level: The fair value of financial assets and financial liabilities are determined with inputs for the assets and liabilities where observable market data cannot be determined.



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**NOTE 29 - FINANCIAL INSTRUMENTS (continued)**

Fair value hierarchy of financial assets and liabilities:

Certain financial assets and liabilities of the Group are accounted for their fair values on each balance sheet date in the financial statements. The table below is the detail on how the fair value of the financial assets and liabilities aforementioned are determined:

| Financial assets /<br>Financial liabilities | Fair Value          |                     | Fair value<br>hierarchy | Valuation technique  |
|---|---------------------|---------------------|-------------------------|--|
|   | 31 December<br>2017 | 31 December<br>2016 |                         |  |
| Foreign currency<br>forward/swap contracts  | 5.893.324           | 1.221.514           | Level 2                 | Discounted cash flow method: The future cash flows, predicted by forward foreign currency rate (observable forward foreign currency rates at reporting date) and the contracted rates, are discounted by a discount rate which indicates other parties' credit risk. |

**NOTE 30 – NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS**

According to The Group's Board of Management decision numbered 2015/29 dated 31 December 2015, shares belonging to company partners, Nile Kordsa Company for Industrial Fabrics S.A.E. and Interkordsa GmbH with %51 and %100 of rates respectively, would be classified as “Assets Held for Sale” in the balance sheet as of 31 December 2015. Hence, these companies were classified as “Assets Held for Sale” in preparation for financial tables in 31 December 2017 and 31 December 2016.

For the year ended 1 January- 31 December 2017 and 1 January- 31 December 2016, the result of the operating activities shown at below:

| Nile Kordsa   | 1 January -<br>31 December 2017 | 1 January -<br>31 December 2016 |
|---|---------------------------------|---------------------------------|
| Revenue   | --                              | --                              |
| Cost of sales                                       | --                              | --                              |
| <b>Gross profit</b>                                 | <b>--</b>                       | <b>--</b>                       |
| General and administrative expenses                 | --                              | --                              |
| Selling, marketing and distribution expenses        | --                              | --                              |
| Research and development expenses                   | --                              | --                              |
| Other income from operating activities              | 4.253.342                       | 519.081                         |
| Other expense from operating activities (*)         | (750.000)                       | (1.750.000)                     |
| <b>Operating profit</b>                             | <b>3.503.342</b>                | <b>(1.230.919)</b>              |
| Gain from investing activities                      | --                              | --                              |
| Loss from investing activities                      | --                              | --                              |
| <b>Operating profit before finance costs</b>        | <b>--</b>                       | <b>--</b>                       |
| Finance income                                      | --                              | --                              |
| Finance costs                                       | --                              | --                              |
| <b>Profit before tax from continuing operations</b> | <b>3.503.342</b>                | <b>(1.239.919)</b>              |
| Tax expense/income from continuing operations       | --                              | --                              |
| <i>Current tax expense</i>                          | --                              | --                              |
| <i>Deferred tax benefit</i>                         | --                              | --                              |
| <b>Profit/ (Loss) for the period</b>                | <b>3.503.342</b>                | <b>(1.239.919)</b>              |

(\*) Refers to provision expenses which are related to impairment of property, plant and equipment of Nile Kordsa.

## **Kordsa Teknik Tekstil Anonim Şirketi and its Subsidiaries**

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#### **NOTE 31 – EVENTS AFTER THE REPORTING PERIOD**

The affiliated company Kordsa Inc. decided to purchase 100% shares of each “Fabric Development Inc.” and “Textile Products, Inc.” amount with the real estate currently leased to, and used by the subject companies that are located in United States of America and are owned by Peter Shah and Abantika Shah in exchange of a total purchase price up to USD 100.000.000 (one hundred millions US Dollar) provided that all legal approvals are obtained from foreign investments authority and US competition law and conditions are met.