

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş.
AND IT'S SUBSIDIARIES

CONVENIENCE TRANSLATION INTO ENGLISH OF
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE INTERIM PERIOD 1 JANUARY - 31 MARCH 2017
(ORIGINALLY ISSUED IN TURKISH)

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND IT'S SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 MARCH 2017
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

ASSETS	Notes	Reviewed Current Period 31.03.2017	Audited Previous Period 31.12.2016
CURRENT ASSETS		302.724.707	224.326.660
Cash and Cash Equivalents	6	48.863.866	6.161.712
Financial Investments		2.123.692	1.076.191
Trade Receivables		103.389.309	99.400.162
- Trade Receivables from Related Parties	9-37	707.087	687.628
- Trade Receivables from 3rd Parties	9	102.682.222	98.712.534
Other Receivables		2.055.437	2.677.752
- Other Receivables from Related Parties	10-37	-	-
- Other Receivables from 3rd Parties	10	2.055.437	2.677.752
Inventories	12	110.820.492	92.239.330
Prepaid Expenses	13	19.124.178	10.444.912
Assets Related with Current Period Tax	35	2.193	2.193
Other Current Assets	26	16.345.540	12.324.408
NON-CURRENT ASSETS		72.815.086	69.037.189
Other Receivables	10	21.898	29.696
- Other Receivables from Related Parties	10-37	-	-
- Other Receivables from 3rd Parties	10	21.898	20.818
Investment Property	16	7.200.000	7.200.000
Tangible Fixed Assets	17	43.568.367	42.631.846
Intangible Fixed Assets		10.452.683	3.792.900
- Goodwill		-	-
- Other Intangible Fixed Assets	18	10.452.683	9.717.796
Prepaid Expenses	13	3.679.918	1.850.083
Deferred Tax Assets	35	7.892.220	7.616.646
TOTAL ASSETS		375.539.793	293.363.849

The accompanying accounting policies and explanatory notes are an integral part of these statements

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 MARCH 2017
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

LIABILITIES	Notes	Reviewed Current Period 31.03.2017	Audited Previous Period 31.12.2016
SHORT-TERM LIABILITIES		215.268.298	158.989.222
Short-Term Borrowings	8	161.606.943	107.794.967
Current Part of Long Term Borrowings	8	2.938.929	5.067.140
Trade Payables		40.360.505	45.778.579
- Due to Related Parties	9-37	-	-
- Other Trade Payables	9	40.360.505	35.753.887
Employee Benefits	25	609.454	1.331.732
Other Payables		2.269.669	1.575.274
- Due to Related Parties	10-37	-	-
- Other Trade Payables	10	2.269.669	2.470.473
Deferred Income	13	6.370.300	5.477.549
Short-Term Provisions		1.112.498	1.399.068
- Short-Term Provisions related to Employee Benefits	25	730.826	711.803
- Other Short-Term Provisions	23	381.672	381.671
Other Short Term Liabilities		-	-
LONG-TERM LIABILITIES		85.269.728	62.199.402
Long-Term Borrowings	8	74.737.239	51.914.354
Other Payables			
- Other Payables to Related Parties	10-37	-	-
- Other Payables to 3rd Parties	10	1.168.998	1.168.998
Deferred Income			
Long-Term Provisions		3.424.719	2.609.471
- Long-Term Provisions related to Employee Benefits	25	3.424.719	3.498.780
- Other Long-Term Provisions		-	-
Deferred Tax Liability	35	5.938.772	5.617.270
Other Long Term Liabilities	27	-	-
EQUITY CAPITAL		75.001.767	72.175.225
EQUITY CAPITAL OF PARENT COMPANY		74.977.901	72.152.654
Paid-in Capital	27	25.000.000	25.000.000
Reacquired Shares (-)	27	(1.161.298)	(1.161.298)
Other Comprehensive Income or Expenses not to be reclassified on Profit or Loss		11.030.050	9.737.768
- Revaluation and Measurement Income / (Loss)	27	11.259.003	11.259.003
- Identified Benefit Plans Reclassification Income / (Loss)	27	(228.953)	(504.658)
Restricted Reserves	27	3.150.869	3.150.869
The Merge Effect of Entities subject to Common Control	27	(1.759.039)	(1.759.039)
Retained Earnings	27	36.167.777	26.570.969
Net Profit / (Loss) of the Period	36	2.549.542	9.596.808
MINORITY SHARES		23.866	22.571
TOTAL LIABILITIES		375.539.793	293.363.849

The accompanying accounting policies and explanatory notes are an integral part of these statements

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND IT'S SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE PERIOD BETWEEN 01.01.2017 - 31.03.2017
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	Reviewed Current Period 01.01.2017 - 31.03.2017	Audited Previous Period 01.01.2016 - 31.03.2016
ONGOING ACTIVITIES			
Revenue	28	36.738.100	41.621.555
Cost of Sales (-)	28	(18.892.942)	(29.051.790)
GROSS PROFIT / (LOSS)		17.845.158	12.569.765
General Administrative Expenses (-)	29	(3.455.380)	(2.161.268)
Marketing Expenses (-)	29	(3.760.548)	(3.615.362)
Research and Development Expenses (-)	29	(165.040)	(542.859)
Other Income from Operations	31	9.920.602	1.330.904
Other Expenses from Operations (-)	31	(7.053.226)	(1.783.725)
OPERATING PROFIT / (LOSS)		13.331.566	5.797.455
Income from Investing Activities	32	323.619	35.584
Expenses from Investing Activities (-)	32	-	-
OPERATING PROFIT BEFORE FINANCIAL INCOME AND EXPENSES		13.655.185	5.833.039
Financial Income	33	7.716.846	1.346.590
Financial Expenses (-)	33	(18.270.699)	(4.099.966)
PROFIT / (LOSS) BEFORE PROVISION FOR TAXES		3.101.332	3.079.663
Tax Income / (Expense) from Operating Activities		(550.496)	(527.577)
- Tax for Period	35	(573.493)	(377.752)
- Deferred Tax Income / (Expense)	35	22.997	(149.825)
NET PROFIT / (LOSS) FOR THE PERIOD		2.550.836	2.552.086
Distribution of Period Profit / (Loss)		2.550.836	2.552.086
- Non-Controlling Interests		1.295	1.932
- Parent Company Shares	36	2.549.541	2.550.154
Earnings Per Share	36	0,10	0,10
- Earnings Per Share from Continuing Operations	36	0,10	0,10
- Diluted Earnings Per Share from Continuing Operations			
NET PROFIT / (LOSS)		2.550.836	2.552.086
Items not to be Reclassified in Profit or Loss		(275.705)	206.271
Defined Benefit Plans Remeasurement Gains / (Losses)		(344.631)	257.839
Other Comprehensive Income Items not to be Reclassified as Other Profit or Loss			
Tax Income/(Loss) related to Other Comprehensive Income not to be Reclassified in Profit or Loss		68.926	(51.568)
- Current Tax (Expense) / Income		68.926	(51.568)
OTHER COMPREHENSIVE INCOME (AFTER TAX)		(275.705)	206.271
TOTAL COMPREHENSIVE INCOME		2.275.131	2.758.357
Distribution of Comprehensive Income :		2.275.131	2.758.357
- Non-Controlling Shares		20	12.511
- Parent Company Shares		2.275.111	2.745.846

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KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND IT'S SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD BETWEEN 01.01.2017 - 31.03.2017

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

Notes	Paid-in Capital	Reaccured Shares	Other Comprehensive Profit / (Loss) Not to be Reclassified on Profit or Loss		The Merge Effect of Entities subject to Common Control	Restricted Reserves	Retained Earnings		Equity Holders of the Parent	Non Controlling Shares	Equity	
			Identified Benefit Plans Reclassification Income / (Loss)	Tangible Fixed Assets Revaluation Increase			Retained Profit / (Loss)	Net Period Profit / (Loss)				
PREVIOUS PERIOD												
01 January 2016 Opening	21	25.000.000	(38.827)	(238.563)	9.976.331	(1.759.039)	2.061.453	9.039.516	18.620.869	62.661.740	17.910	62.679.650
Transfers		-	-	-	-	-	-	18.620.869	(18.620.869)	-	-	-
Total Comprehensive Income	21	-	-	206.271	-	-	-	-	2.550.154	2.756.425	-	2.756.425
Increase / Decrease from Other Changes		-	-	-	-	-	-	-	-	-	(7.055)	(7.055)
Balance at 31 March 2016 Closing	21	25.000.000	(38.827)	(32.292)	9.976.331	(1.759.039)	2.061.453	27.660.385	2.550.154	65.418.165	10.855	65.429.020
CURRENT PERIOD												
01 January 2017 Opening (Opening)	21	25.000.000	(1.161.298)	(504.658)	11.259.003	(1.759.039)	3.150.869	26.570.969	9.596.808	72.152.654	22.571	72.175.225
Transfers		-	-	-	-	-	-	9.596.808	(9.596.808)	-	-	-
Total Comprehensive Income	21	-	-	275.705	-	-	-	-	2.549.542	2.825.247	1.295	2.826.542
Balance at 31 March 2017 Closing	21	25.000.000	(1.161.298)	(228.953)	11.259.003	(1.759.039)	3.150.869	36.167.777	2.549.542	74.977.901	23.866	75.001.766

The accompanying accounting policies and explanatory notes are an integral part of these statements

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW FOR THE PERIOD BETWEEN 01.01.2017 - 31.03.2017
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	Reviewed	
		Current Period 01.01.2017 - 31.12.2017	Previous Period 01.01.2016 - 31.03.2016
A. CASH FLOWS FROM OPERATING ACTIVITIES		(31.762.056)	(17.999.354)
Profit / (Loss) for Period		2.550.836	2.552.086
Adjustments to Reconcile Net Profit / (Loss) :		(2.792.633)	1.274.096
- Depreciation and Amortization	17-18	775.447	474.752
- Impairments / Reversals	11	-	(6.269)
- Changes in Provisions	18	(55.038)	(94.024)
- Interest Income and Expense		(359.810)	69.906
- Unrealized Exchange Loss / (Gain)		(5.110.523)	319.078
- Gain/Loss from Fixed Assets Sales		-	(16.924)
- Profit / (Loss) Reconciliations		1.957.291	527.577
Changes in Working Capital		(27.423.813)	(21.260.389)
- Increases / (Decreases) in Inventories	12	(18.581.162)	5.950.613
- Increases / (Decreases) in Trade Receivables	9	(3.989.147)	(12.857.437)
- Increases / (Decreases) in Other Receivables		622.315	6.414.694
- Increases (Decreases) in Trade Payables	9	4.606.618	(20.263.957)
- Increases (Decreases) in Other Payables		(466.087)	(841.400)
- Other Increase / (Decreases) in Working Capital		(9.616.350)	337.098
Cash Flow from Operating Activities		(27.665.610)	(17.434.207)
Tax Payments / Returns			
Other Cash Flows / Outflows		(4.096.446)	(565.147)
B. CASHFLOW PROVIDED BY INVESTING ACTIVITIES		(4.223.937)	(981.154)
Proceeds from Sale of Tangible and Intangible Assets		-	46.066
Cash Outflows due to Purchases of Tangible and Intangible Assets		(4.274.338)	(1.045.879)
Interest Gained		-	1.971
Tax Payments / Returns		50.401	16.688
C. CASH FLOW PROVIDED BY FINANCING ACTIVITIES		78.688.147	13.597.665
Proceeds from Borrowings		143.751.183	42.734.282
Payments of Borrowings		(63.177.580)	(27.754.885)
Financial Lease Payments		(346.210)	(238.813)
Interest Gained		-	258.379
Interest Payments		(1.539.246)	(1.401.298)
Other Cash Inflows / Outflows			
D. FOREIGN CURRENCY CONVERSION ADJUSTMENTS EFFECTS ON CASH AND CASH EQUIVALENTS		42.702.154	(5.382.843)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		42.702.154	(5.382.843)
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	6	6.161.712	5.781.214
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	6	48.863.866	398.371

The accompanying accounting policies and explanatory notes are an integral part of these statements

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 31 MARCH 2017

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

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KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 31 MARCH 2017

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

1. ORGANIZATION AND ACTIVITIES

Katmerciler Araç Üstü Ekipman Sanayi ve Ticaret Anonim Şirketi ("Company") was established in 1985 by registered to İzmir Trade Registry and announced at 1380 numbered and 05.11.1985 dated trade registry gazette.

The Group's head office address : Ataturk Organized Industrial Zone 10032 Sokak No: 10 Çiğli / IZMIR. Group has a branch offices which are located in Kızıllırmak Mah. 1445 Sok. No: 2b/82 The Pragon İş Merkezi Çukurambar – Çankaya / ANKARA and Küçükbakkalköy Mah. Küçük Setli Sk. Denge Panorama Plaza 2015 No:5 D:24 K:6 Ataşehir İstanbul. Group also has a production facility located in Malıköy Mah. 23.Cad.No:3 Başkent OSB Sincan Ankara.

The Company and its subsidiaries (the "Group") operate in all manner of onboard equipment manufacturing , painting workshop and weld workshop fields. The business segment which details given below underlie Group's reporting by field of activity .

Group 's main activities are as follows :

Painting Work - Painting of vehicle equipment

Weld Work - Onboard equipment weld workshop

Vehicle Equipment Manufacturing- onboard equipment manufacturing for the fire, trash , vacuum , grooving, ecological vehicle , transport vehicle , defense industry vehicles and construction industry vehicles.

Company shares were offered to the public in 2010, as at 31 MArch 2017, 36,29 % (31.12.2016 : %36,29) of sheres has been trading in Istanbul Stock Exchange Inc. (ISE).

As of 31 March 2017, the total number of people employed within the Group is 369. (31 December 2016: 353).

The ultimate parent of Group is managed by İsmail Katmerci. (Note 21).

The nature of operations and the operation groups of the companies included in consolidation are presented as follows:

Companies included in consolidation:

<u>Company Title</u>	<u>Nature of Business</u>	<u>Establishment Place</u>
Katmerciler Profil San. ve Tic. A.Ş.	Painting Works	Turkey
İspan Otomotiv ve Üst Ekipman Metal ve Makine San. ve Tic. A.Ş.	Weld Workshop Onboard Equipment	Turkey
Gimkat Araç Üstü Ekipman San. ve Tic. A.Ş.	Manufacturing	Turkey

Company does not has any subsidiary whose shares are traded on the stock market.

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 31 MARCH 2017

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

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

A. Basic Standards of Presentation

Summary of basis of presentation of the interim condensed of consolidated financial statements

The Group maintains its books of accounts and prepare its statutory financial statements in accordance with the regulation of Turkish Commercial Code and Tax Legislation.

The accompanying interim condensed consolidated financial statements are based in accordance with Turkish Accounting Standards (“TAS”) issued by Public Oversight Accounting and Auditing Standards Authority of Turkey (“POA”) as set out in the Communiqué serial II, No: 14.1 announcement of Capital Markets Board (“CMB”) dated 13 June 2013 related to “Capital Market Communiqué on Principles Regarding Financial Reporting” (“Communiqué”) which is published in official gazette, no 28676. TAS is composed of Turkish Accounting Standards, Turkish Financial Reporting Standards, appendixes and interpretations.

In accordance with article 5th of the CMB Accounting Standards, companies should apply Turkish Accounting Standards/Turkish Financial Reporting Standards (TAS) and interpretations regarding these standards as adopted by the Public Oversight Accounting and Auditing Standards Authority (“POA”).

Interim condensed consolidated financial statements are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with the Accounting Standards of the POA and are presented in TL.

In order to prepare financial statements in accordance with IFRSs, certain assumptions affecting notes to the financial statements and critical accounting estimations related to assets, liabilities, contingent assets and contingent liabilities are required to be used. Although these estimations are made upon the best afford of the management by interpreting the cyclical circumstances, actual results may differ from the forecasts. Issues that are complex and needs further interpretation, which might have a critical impact on financial statements. There is no change in judgements and critical accounting estimates used in interim condensed consolidated financial statements as of 31 March 2017.

Preparation of Financial Statements in Hyperinflationary Periods

Company’s financial statements are prepared in accordance with Finance Ministry’s inflation accounting legislation until 31 December 2004, inflation accounting application has been terminated since 01 January 2005.

Comparative information, changes in accounting policies and restatement of prior period financial statements

In order to allow the determination of financial position and performance of the Group are prepared in the comparative prior period consolidated financial statements of the current period. In order to comply with the presentation of the consolidated financial statements for the period necessary, comparative figures are reclassified.

Going Concern

The consolidated financial statements including the accounts of the parent company, its subsidiaries, joint ventures and associates have been prepared assuming that the Group will continue as a going concern on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

A. Basic Standards of Presentation (continued)

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Amendments in International Financial Reporting Standards (“IFRS”)

The Group has applied new standards, amendments and interpretations to existing IAS/ IFRS standards published by IASB and TASC/IFRIC that are effective as at 1 January 2016 and are relevant to the Group’s operations. There are no relevant amendments or interpretations for the Group which have been enforced as of 1 January 2016 and in year ends to 31 December 2016.

– Amendment to TAS 16, 'Property, plant and equipment' and TAS 38, 'Intangible assets', on depreciation and amortisation, effective from annual periods beginning on or after 1 January 2016. In this amendment, it has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It is also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

– Amendment to TFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation, effective from annual periods beginning on or after 1 January 2016. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

– Amendments to TAS 27, ‘Separate financial statements’ on the equity method, effective from annual periods beginning on or after 1 January 2016. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

– Amendments to TFRS 10, ‘Consolidated financial statements’ and IAS 28, ‘Investments in associates and joint ventures’, effective from annual periods beginning on or after 1 January 2016. These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

– Amendments to TFRS 10, ‘Consolidated financial statements’ and IAS 28, ‘Investments in associates and joint ventures’, effective from annual periods beginning on or after 1 January 2016. These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

A. Basic Standards of Presentation (continued)

Amendments in International Financial Reporting Standards (“IFRS”) (continued)

- TAS 1 "Presentation of Financial Statements"; effective from annual periods beginning on or after 1 January 2016. These amendments address to improve the presentation and disclosure of financial statements.
- Annual improvements 2014, effective from annual periods beginning on or after 1 January 2016. These set of amendments impacts 4 standards:
 - TFRS 5, Non-current assets held for sale and discontinued operations’ regarding methods of disposal
 - TFRS 7, Financial instruments: Disclosures’, (with consequential amendments to IFRS 1) regarding servicing contracts
 - TAS 19, Employee benefits’ regarding discount rates
 - TAS 34, Interim financial reporting’ regarding disclosure of information.

Standards and interpretations issued but not yet effective

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the financial statements and disclosures, after the new standards and interpretations become in effect.

- TFRS 9 ‘Financial instruments’, effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.
- TFRS 15 ‘Revenue from contracts with customers’, effective from annual periods beginning on or after 1 January 2018. IFRS 15, ‘Revenue from contracts with customers’ is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. Amendment to IFRS 15, ‘Revenue from contracts with customers’, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

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 not yet effective up to the date of issuance of the financial statements. However, 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 company will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

A. Basic Standards of Presentation (continued)

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

– IFRS 16 Leases, On 13 January 2016, IASB published 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 change 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. The standard 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 Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

– Amendments to IAS 7 – Disclosure Initiative, IAS 7 Statement of Cash Flows has been amended as part of the IASB’s broader disclosure initiative to improve presentation and disclosure in financial statements. The amendments will require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for periods beginning on or after 1 January 2017, with earlier application permitted. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

– Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses, The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments are effective for annual periods beginning on or after 1 January 2017. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

– Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions, IFRS 2 Share-Based Payment has been amended by IASB to improving 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 Company does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Company.

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 31 MARCH 2017

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

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

A. Basic Standards of Presentation (continued)

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

– IAS 40 – Transfers of Investment Property, Amendments to IAS 40 - Transfers of Investment Property issued by IASB 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 derecognized (eliminated from the statement of 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 Company does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Company.

- Annual improvements 2014–2016, effective from annual periods beginning on or after 1 January 2018. These amendments impact 3 standards:

- TFRS 1, ‘First-time adoption of IFRS’, regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, TAS 19, and TFRS 10 effective 1 January 2018.
- TFRS 12, ‘Disclosure of interests in other entities’ regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.
- TAS 28, ‘Investments in associates and joint ventures’ regarding measuring an associate or joint venture at fair value effective 1 January 2018.

Consolidation Principles

The consolidated financial statements include the accounts of the parent company, its subsidiaries on the basis set out in sections below. Control is obtained by controlling over the activities of an entity's financial and operating policies in order to benefit from those activities.

Subsidiaries

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies so as to benefit from its activities. In case of Group has income from company because of it’s relation or rights-holder of income also has power to effect income than Group is controlling the company.

Subsidiaries' financial statements from the date control commences until the date that end have been included in the consolidated financial statements. Accounting policies of subsidiaries, if necessary, to ensure compliance with policies agreed by the Group has been changed.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 31 MARCH 2017

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

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

A. Basic Standards of Presentation (continued)

As of March 31, 2017 direct and indirect participation rate of subsidiaries subject to consolidation are as follows;

<u>Subsidiaries</u>	<u>Main Activity</u>	<u>Functional Currency</u>	<u>Establishmt & Operation Place</u>	<u>Shareholding Ratio (%)</u>	
				<u>31.03.2017</u>	<u>31.12.2016</u>
Katmerciler Profil San. ve Tic. A.Ş.	Painting Works	Turkish Lira	Turkey	100,00	100,00
Isıpan Otomotiv ve Üst Ekipman Metal ve Makine San. ve Tic. A.Ş.	Weld Workshop	Turkish Lira	Turkey	95,67	95,67
Gimkat Araç Üstü Ekipman San. ve Tic. A.Ş.	Onboard Equipment Manufacturing	Turkish Lira	Turkey	100,00	100,00

B. Declaration of Conformity to TAS

The accompanying interim consolidated financial statements are prepared in accordance with Communiqué Serial II, No:14.1, “Principles of Financial Reporting in Capital Markets” (“the Communiqué”) published in the Official Gazette numbered 28676 on 13 June 2013.

According to Article 5 of the Communiqué, consolidated financial statements are prepared in accordance with the Turkish Accounting Standards issued by Public Oversight Accounting and Auditing Standards Authority (“POAASA”). TAS contains Turkish Accounting Standards, Turkish Financial Reporting Standards (“TFRS”) and its addendum and interpretations (“IFRIC”).

The Group’s consolidated financial statements as at 31 March 2017 is confirmed and signed by Board of Directors on 10 May 2017. General Assembly of the Group has the right to readjust financial statements prepared in accordance with legal regulations of legal institutions.

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 31 MARCH 2017

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

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

C. Changes in Accounting Policies

The preparation of financial statements in conformity with TAS/IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

There is not any changes in significant accounting policies mentioned for the period ended 31 December 2016.

3. BUSINESS COMBINATIONS

None (31.12.2016: None).

4. JOINT VENTURES

None (31.12.2016: None).

5. SEGMENT INFORMATION

Each reportable segment derives its revenues as the types of products and services are as follows;

"On-board equipment production"

Firefighters, environmental tool, vehicle, vehicles for the defense industry and the construction industry is the manufacture and sale of equipment for the aerial.

"Painting Works"

Painting of vehicles and vehicle-mounted equipment is made of craftsmanship.

"Weld Works"

Truck-mounted equipment is made of the source of labor.

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 31 MARCH 2017

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

5. SEGMENT INFORMATION (continued)

31.03.2017	Onboard Vehicle Equipment	Weld Works	Painting Work	Consolidation Adjustments	Total
Net Non-Group Sales	36.642.399	10.069	7.827	77.805	36.738.100
Net In-Group Sales	1.997.483	337.383	417.940	(2.752.806)	-
Net Sales Total	38.639.882	347.452	425.767	(2.675.001)	36.738.100
Cost of Sales (-)	(21.077.068)	(216.776)	(293.365)	2.694.267	(18.892.942)
Gross Profit	17.562.814	130.676	132.402	19.266	17.845.158
Research and Development Expenses (-)	(184.758)	-	-	19.718	(165.040)
Marketing, Selling and Distribution Expense (-)	(3.786.288)	-	-	25.740	(3.760.548)
General Administrations Expense (-)	(3.339.749)	(108.611)	(52.292)	45.272	(3.455.380)
Other Operating Income	9.890.462	18.860	174.005	(162.725)	9.920.602
Other Operating Expenses (-)	(7.052.563)	(346)	(317)	-	(7.053.226)
Operating Profit/Loss	13.089.918	40.579	253.798	(52.729)	13.331.566
Income from Investment Operation	323.619	-	-	-	323.619
Expense from Investment Operation (-)	-	-	-	-	-
OPERATING PROFIT (LOSS) BEFORE FINANCIAL INCOME AND EXPENSES	13.413.537	40.579	253.798	(52.729)	13.655.185
Financial Income	8.304.031	56	-	(587.241)	7.716.846
Financial Expense (-)	(19.099.952)	(1.165)	-	830.418	(18.270.699)
PRE-TAX PROFIT (LOSS) FROM ONGOING OPERATIONS	2.617.616	39.470	253.798	190.448	3.101.332
Tax Income / (Expense) from Operating Activities					(550.496)
-Tax Income / (Expense)	(496.243)	(10.680)	(66.570)	-	(573.493)
-Deferred Tax Income / (Expense)	8.584	1.093	13.320	-	22.997
NET PROFIT / (LOSS)	2.129.957	29.883	200.548	190.448	2.550.836
Investment Expenditures	4.274.338	-	-	-	4.274.338
Tangible Fixed Assets	3.175.702	-	-	-	3.175.702
Intangible Fixed Assets	1.098.636	-	-	-	1.098.636
Amortization,	423.422	6.178	52.857	-	482.457
Amortization and Depletion	292.990	-	-	-	292.990
Total Investment Expenditures	4.274.338	-	-	-	4.274.338
<u>Other Information</u>					
- Total Assets	378.524.381	1.205.460	17.172.649	(21.362.696)	375.539.793
- Total Liabilities	378.524.381	1.205.460	17.172.649	(21.362.696)	375.539.793

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 31 MARCH 2017

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

5. SEGMENT INFORMATION (continued)

31.03.2016	Onboard Vehicle Equipment	Weld Works	Painting Work	Consolidation Adjustments	Total
Net Non-Group Sales	41.614.512	4.575	2.468	-	41.621.555
Net In-Group Sales	7.403.322	286.500	283.000	(7.972.822)	-
Net Sales Total	49.017.834	291.075	285.468	(7.972.822)	41.621.555
Cost of Sales (-)	(37.340.077)	(175.384)	(274.309)	8.737.980	(29.051.790)
Gross Profit	11.677.757	115.691	11.159	765.158	12.569.765
Research and Development Expenses (-)	(542.859)	-	-	-	(542.859)
Marketing, Selling and Distribution Expense (-)	(3.627.614)	-	-	12.252	(3.615.362)
General Administrations Expense (-)	(2.067.754)	(93.659)	(27.594)	27.739	(2.161.268)
Other Operating Income	1.526.474	33.949	431.171	(660.690)	1.330.904
Other Operating Expenses (-)	(1.782.908)	(328)	(487)	(2)	(1.783.725)
Operating Profit/Loss	5.183.096	55.653	414.249	144.457	5.797.455
Income from Investment Operation	35.584	-	-	-	35.584
Expense from Investment Operation (-)	-	-	-	-	-
Financial Income	1.501.803	147	-	(155.360)	1.346.590
Financial Expense (-)	(4.509.561)	(54)	-	409.649	(4.099.966)
PRE-TAX PROFIT (LOSS) FROM ONGOING OPERATIONS	2.210.922	55.746	414.249	398.746	3.079.663
Tax Income / (Expense) from Operating Activities					
-Tax Income / (Expense)	(292.032)	(6.037)	(79.683)	-	(377.752)
-Deferred Tax Income / (Expense)	(146.636)	(28)	(3.161)	-	(149.825)
NET PROFIT / (LOSS)	1.772.254	49.681	331.405	398.746	2.552.086
Investment Expenditures					
Tangible Fixed Assets	952.283	-	-	-	952.283
Intangible Fixed Assets	93.596	-	-	-	93.596
Amortization,	315.710	4.228	33.531	-	353.469
Amortization and Depletion	141.106	-	-	(19.824)	121.282
Total Investment Expenditures	1.045.879	-	-	-	1.045.879
<u>Other Information</u>					
- Total Assets	225.119.884	914.135	15.211.216	(26.883.707)	214.361.528
- Total Liabilities	225.119.884	914.135	15.211.216	(26.883.707)	214.361.528

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

6. CASH AND CASH EQUIVALENTS

	<u>31.03.2017</u>	<u>31.12.2016</u>
Cash	54.531	18.988
Banks	48.809.335	6.142.724
- Demand Deposits	2.553.346	6.142.724
TL	1.962.393	4.475.750
USD	27.831	1.478.273
EUR	563.122	188.701
- Time Deposits	46.255.989	
EUR	46.042.556	-
Interest Income Accrual	213.433	-
Toplam	48.863.866	6.161.712

The term details of cash and cash equivalents are as follow;

	<u>31.03.2017</u>	<u>31.12.2016</u>
Between 30-90 Days	46.255.989	-

7. FINANCIAL INVESTMENTS

	<u>31.03.2017</u>		<u>31.12.2016</u>	
	Nominal Value	Book Value	Nominal Value	Book Value
Financial Assets Available for Sale				
Azimut GBK-Eurobond Debt Instrument Fund	275	144	275	197
Azimut GMA-Multiple Asset Flexible Debt Instrument Fund	700.000	768.669	700.000	742.564
Azimut GTF- Primary Debt Instrument Fund	100.000	128.596	100.000	121.248
Azimut GBL- Money market Debt Instrument Fund	200.000	229.288	200.000	212.182
Garanti Investment Derivatives Exchange	1.000.000	996.995	-	-
Total	2.000.275	2.123.692	1.000.275	1.076.191

8. FINANCIAL BORROWINGS

	<u>31.03.2017</u>	<u>31.12.2016</u>
a) Bank Loans	133.035.168	107.197.223
b) Principal Repayments of Long Term Loans	2.938.929	5.067.140
c) Issued Bond	100.176.403	49.415.666
d) Financial Lease Obligations	3.132.614	3.096.432
Total	239.283.112	164.776.461

a) Bank Loans

31.03.2017

<u>Currency</u>	<u>Average Interest Rate (%)</u>	<u>Short-Term</u>	<u>Short-Term Portion of Long-Term Loans</u>	<u>Long-Term</u>
	TL	10,80 – 15,60	26.732.400	1.905.330
USD	4,70 – 4,68	258.810	-	1.042.493
EUR	2,70 – 5,50	33.539.886	1.033.599	27.393.972
Total		60.531.096	2.938.929	72.504.072

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 31 MARCH 2017

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

8. FINANCIAL BORROWINGS (continued)

a) Bank Loans (continued)

31.12.2016

<u>Currency</u>	<u>Average Interest</u>	<u>Short-Term</u>	<u>Short-Term Portion of</u>	
	<u>Rate (%)</u>		<u>Long-Term Loans</u>	<u>Long-Term</u>
TL	4,25-14	11.701.863	2.872.765	33.480.653
USD	3,50-4,75	596.993	-	1.008.007
EUR	4,25-4,50	45.066.968	2.194.375	15.342.740
Total		57.365.824	5.067.140	49.831.399

	31.03.2017	31.12.2016
Payable within 1 year	60.531.096	57.365.824
Payable within 1 - 2 years	44.075.327	13.365.453
Payable within 2 - 3 years	17.595.564	24.889.294
Payable within 3 - 4 years	10.833.181	11.576.652
Total	133.035.168	107.197.223

The fair value of short-and long-term debts are equal to book value because the effect of discounting is immaterial. As of the reporting date, bank loans secured over EUR 600,000, USD 5.000.000 and TL 45.6 million –values of buildings (31.12.2016: EUR 600.000, USD 5.000.000 and TL 45.600.000).

b) Principal Repayments of Long Term Loans

<u>Currency</u>	<u>Average Interest Rate (%)</u>	31.03.2017	31.12.2016
TL	10,25 - 15,60	1.905.330	1.952.071
USD		-	1.714.285
EUR	2,98 - 4,75	1.033.599	1.400.784
Total		2.938.929	5.067.140

b) Issued Bonds

31.03.2017

<u>Currency</u>	<u>Nominal Interest Rate</u>	<u>Term</u>	<u>Nominal Value</u>	<u>Book Value</u>
TL	3,9629(*)	10.05.2017	36.000.000	36.502.323
TL	4,0048(*)	10.08.2017	12.000.000	12.403.781
TL	3,9749(*)	08.03.2018	50.000.000	51.270.299
			98.000.000	100.176.403

(*) The amount of accrued interest is amounting to TL 2.176.403 until 31.03.2017 (31.12.2016 : TL 1.415.666).

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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

8. FINANCIAL BORROWINGS (continued)

a) Issued Bonds (continued)

31.12.2016				
Currency	Nominal Interest Rate	Term	Nominal Value	Book Value
TL	3,60(*)	10.05.2017	36.000.000	37.083.903
TL	3,47(*)	10.08.2017	12.000.000	12.331.763
			48.000.000	49.415.666

(*) The amount of accrued interest is amounting to TL 1.415.666 until 31.12.2016.

(*)The coupon interest at each coupon payment period will be calculated by adding the 4.00% per annum to the weighted average over the last five business days of the indicative government domestic borrowing date of the BIC Bond and Bills final purchase and sale market. Bond are paid in quarterly and principal will be paid in date of maturity.

c) Financial Lease Obligations:

Net Value	31.03.2017	31.12.2016
Machinery, Equipment and Installations (net)	3.132.614	3.096.436

Finance lease obligations, shows the unpaid portion of leasing obligations of plant, machinery and equipment acquired through financial leasing.

- Net recorded value of financial lease assets as at balance sheet date:

	<u>TL</u>	<u>TL</u>	<u>TL</u>	<u>TL</u>
	Less than 1 Year	Between 1-5 Years	More than 5 Years	Total
Amount of Minimum Lease Payments				
TL Denominated Finance Leases	216.516	404.606		621.122
EUR Denominated Finance Leases	734.875	1.820.082		2.554.957
USD Denominated Finance Leases	77.136	215.927		293.063
Total	1.028.527	2.440.615		3.469.142
Present Value of Payments				
TL Denominated Finance Leases	174.416	319.715		494.131
EUR Denominated Finance Leases	657.755	1.710.320		2.368.075
USD Denominated Finance Leases	67.274	203.134		270.408
Total	899.445	2.233.169		3.132.614

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 31 MARCH 2017**

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

8. FINANCIAL BORROWINGS (continued)**d) Financial Lease Obligations (continued):**

<u>31.12.2016</u>	<u>TL</u>	<u>TL</u>	<u>TL</u>	<u>TL</u>
	Less than 1 Year	Between 1-5 Years	More than 5 Years	Total
Amount of Minimum Lease Payments				
TL Denominated Finance Leases	147.068	468.417		615.485
EUR Denominated Finance Leases	911.193	1.632.204		2.543.397
USD Denominated Finance Leases	99.472	208.842		308.314
Total	1.157.733	2.309.463		3.467.196
Present Value of Payments				
TL Denominated Finance Leases	111.167	351.197		462.364
EUR Denominated Finance Leases	816.137	1.535.290		2.351.427
USD Denominated Finance Leases	86.173	196.468		282.641
Total	1.013.477	2.082.955		3.096.432

Financial leasing, related with purchasing of machinery and fixtures whose rental period of 2 years. Company has option to buy those machinery and fixtures. The Company's obligations under finance leases, the lessor of the leased asset is secured by property right on.

Convention relating to the leasing transactions on interest rates are fixed for the entire rental period. Contract average effective interest rate is about 5% annually.

9. TRADE RECEIVABLES AND PAYABLES**a) Trade Receivables:**

As at balance sheet date, the details of Group's trade receivables are as follows:

<u>Short-Term Trade Receivables</u>	<u>31.03.2017</u>	<u>31.12.2016</u>
Customers	91.757.740	87.407.337
Postdated Checks	11.086.931	11.472.420
Less: Unaccrued Finance Income	(162.449)	(167.223)
Doubful Trade Receivables (*)	2.971.777	2.911.976
Less: Provision for Doubful Trade Receivables	(2.971.777)	(2.911.976)
Sub Total	102.682.222	98.712.534
-Related Parties	707.087	687.628
Total	103.389.309	99.400.162

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 31 MARCH 2017**

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

9. TRADE RECEIVABLES / PAYABLES (continued)**a) Trade Receivables (continued):**

Customers, Notes Receivables ve Postdated Check maturity details are as follows:

<u>Customers, Notes Receivables and Postdated Check</u>	<u>31.03.2017</u>	<u>31.12.2016</u>
Maturity between 1 – 3 Months	55.054.644	62.568.102
Maturity between 3 – 6 Months	33.108.788	25.343.963
Maturity between 6 – 9 Months	15.388.326	11.655.320
Total	<u>103.551.758</u>	<u>99.567.385</u>

As of 31 March 2017, the weighted average of interest rate respectively 10,91 % and 1,27 % and 0 % used to calculate unearned finance income for short-term trade receivables in terms of TL, USD and EUR. (31.12.2016: respectively % 8,64, % 0,96, % 0)

As of 31 March 2017, amounting to TL 2.911.777 (31.12.2016: TL 2.911.976) trade receivables are doubtful receivables. The amounting to TL 59.801 (31.12.2016: TL 320.409) provision made within the period. Doubtful receivables are consist of uncollected amounts of customer receivables.

* The details of doubtful trade receivables are as follows;

<u>Doubtful Trade Receivables</u>	<u>31.03.2017</u>	<u>31.12.2016</u>
Opening	2.911.976	2.721.528
Period Expense	59.801	320.409
Less: Cancelled within the Period	-	(129.961)
Closing	<u>2.971.777</u>	<u>2.911.976</u>

Long-Term Trade Receivables

None. (31.12.2016: None.)

b) Trade Payables:

As at balance sheet date, the details of Group's trade payables are as follows:

<u>Short-Term Trade Payables</u>	<u>31.03.2017</u>	<u>31.12.2016</u>
Suppliers (*)	9.825.707	14.321.073
Notes Payables (*)	27.744.849	14.948.536
Less: Unaccrued Finance Expense	(359.564)	(156.620)
Other Trade Payables	3.149.513	6.640.898
Total	<u>40.360.505</u>	<u>35.753.887</u>

As of 31 March 2017, the weighted average of interest rates are % 10,91, % 1,27 and % 0 used to calculate unearned finance expense for short-term trade payables in terms of TL, USD and EUR. (31.12.2016: 8,64, %0,96, % 0)

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 31 MARCH 2017**

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

9. TRADE RECEIVABLES / PAYABLES (continued)**b) Trade Payables (continued):**

<u>Suppliers and Notes Payables</u>	<u>31.03.2017</u>	<u>31.12.2016</u>
Maturity between 0 - 6 Months	30.056.445	24.410.998
Maturity between 6 - 9 Months	7.514.111	4.858.611
Total	37.570.556	29.269.609

Long-Term Trade Payables

None. (31.12.2016: None.)

10. OTHER RECEIVABLES AND PAYABLES

<u>Short-Term Other Receivables</u>	<u>31.03.2017</u>	<u>31.12.2016</u>
Deposits and Guarantees	15.732	100.657
Receivables from Tax Office	1.635.593	2.168.458
Receivables from SSI	19.767	18.568
Blocked Receivables(*)	378.876	378.876
Other Miscellaneous Receivables	5.469	11.193
Total	2.055.437	2.677.752

(*) The amount consist of Eximbank loans and would be collected accordingly with closing of loans.

<u>Long-Term Other Receivables</u>	<u>31.03.2017</u>	<u>31.12.2016</u>
Deposits and Guarantees	21.898	20.818
Total	21.898	20.818

<u>Short-Term Other Payables</u>	<u>31.03.2017</u>	<u>31.12.2016</u>
Taxes and Funds Payable	1.396.235	1.860.315
Other Miscellaneous Payables	-	1.774
Restructured Tax According to 6736 Numbered Tax Law	395.839	608.384
Deferred SSI Premiums According to to 67770 Numbered Law	212.312	-
Total	2.004.386	3.078.857

11. INVENTORIES

	<u>31.03.2017</u>	<u>31.12.2016</u>
Raw materials and supplies	54.270.322	37.082.950
Work-in-process	34.450.770	36.711.597
Finished goods	19.546.966	15.892.952
Commercial goods	2.574.102	2.574.129
Other Inventories	9.664	9.034
Provision for diminution in value of inventories (-)	(31.332)	(31.332)
Total	110.820.492	92.239.330

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

11. INVENTORIES (continued)

The Group's inventories amounting to TL 31.332 which are net realizable value is under the cost value. (31.12.2016: TL 31.332).

<u>Provision for Impairment of Inventories</u>	<u>31.03.2017</u>	<u>31.12.2016</u>
Opening Balance	(31.332)	(37.600)
Additional Provision	-	-
Cancelled Provision (-)	-	6.268
Closing Balance	<u>(31.332)</u>	<u>(31.332)</u>

Group does not has any pledged inventory in return for loans as at March 31,2017. (31.12.2016: None).

12. PREPAID EXPENSES AND DEFERRED INCOME**Short-Term Prepaid Expenses**

	<u>31.03.2017</u>	<u>31.12.2016</u>
Advances Given for Inventories	18.114.490	10.050.782
Prepaid Expenses for Future Months	1.009.688	394.130
Total	<u>19.124.178</u>	<u>10.444.912</u>

Long-Term Prepaid Expenses

	<u>31.03.2017</u>	<u>31.12.2016</u>
Advances Given for Property	3.562.960	1.735.478
Prepaid Expenses for Future Years	116.958	114.605
Total	<u>3.679.918</u>	<u>1.850.083</u>

Short-Term Deferred Income

	<u>31.03.2017</u>	<u>31.12.2016</u>
Deferred Income for Future Months	6.370.300	5.477.549
Total	<u>6.370.300</u>	<u>5.477.549</u>

Long-Term Deferred Income

None (31.12.2016: None).

13. INVESTMENTS ACCORDING TO EQUITY METHOD

None (31.12.2016: None).

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 31 MARCH 2017

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14. INVESTMENT PROPERTIES

Group valuated land and building located in Gaziemir / İzmir and land located in Güzelbahçe / İzmir and lands located in Ataşehir / İstanbul to CMB licenced independent expertise company TSKB Gayrimenkul Değerleme A.Ş. Group management believes that valuation company has the relevant professional experience and current information regarding investment property.

According to 30 December 2016 dated expertise report, total values of factory building and lands located in Çiğli / İzmir set as TL 5.183.000, the total value of lands located in Güzelbahçe / İzmir set as TL 910.000 and the total value of buildings located in Ataşehir / İstanbul set as TL 1.107.000. Property values calculated according to coefficient comparison, cost, income comparison and direct capitilazition methods.

Company does not has any liabilities arising from building, developing and maintenance agreements for Investment properties as of balance sheet date.

Group has been earned amounting to TL 20.068 rent income from investment properties. (31.12.2016: TL 72.090). There is amounting to TL 15.600.000 mortgage over investment properties. (31.12.2016: TL 15.600.000).

15. PROPERTY, PLANT AND EQUIPMENT

Group has been purchased amounting to TL 3.175.702 (31.12.2016: TL 9.467.594) property, plant and equipment and has not been sold any property, plant and equipment within the interim period. (31.12.2016: TL 160.223)

Group valuated land and building located in Gaziemir / İzmir and land which factory construction ongoing on and located in Ankara to CMB licenced independent expertise company TSKB Gayrimenkul Değerleme A.Ş. Group management believes that valuation company has the relevant professional experience and current information regarding investment property.

According to 30 December 2016 dated expertise report, total values of factory building and lands located in Çiğli / İzmir set as TL 29.400.000, the total value of land and factory located in Ankara Industrial Estate set as TL 3.440.000. Property values calculated according to coefficient comparison, cost, income comparison and direct capitilazition methods. There are TL 30.000.000, USD 5.000.000 and EUR 600.000 mortgage over Tangible Fixed Assets.

16. INTANGIBLE FIXED ASSETS

Group has been purchased amounting to TL 1.098.636 (31.12.2016: TL 1.982.10) intangible fixed assets and amounting to TL 822.465 of this purchase arise from r&d investment. Group has not been sold any intangible fixed assets within the interim period. (31.12.2016: TL 136.015)

17. GOODWILL

None. (31.12.2016 – None.)

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 31 MARCH 2017**

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

18. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

<u>Short-Term Debt Provision</u>	<u>31.03.2017</u>	<u>31.12.2016</u>
Warranty Expense Provision	335.900	335.900
Court Expense Provision	45.772	45.772
Total	<u>381.672</u>	<u>381.672</u>

Ongoing Lawsuits And Execution Proceedings

As of March 31, 2017, there are 2 lawsuits filed against the Group which are still ongoing. The total amount of this lawsuits are amounting to TL 45.772 and provision has been made for the total amount. (31 December 2016: 2 lawsuits- TL 45.772).

Collateral, Pledges, Mortgages, Bails

Collaterals, Pledges, Mortgages and Bails position table as of 31 March 2017 ve 31 December 2016 as below;

	<u>31.03.2017</u>			
<u>CPMB’s given by the Company (Collaterals, Pledges, Mortgages, Bail)</u>	<u>TL</u>	<u>USD</u>	<u>EUR</u>	<u>TL</u>
	<u>Equivalent</u>			
1. CPMB’s given for company’s own legal personality	103.521.268	6.237.373	6.668.778	54.762.378
2. CPMB’s given on behalf of fully consolidated Companies	-	-	-	-
3. CPMB’s given of behalf of third parties for ordinary course of business	-	-	-	-
4. Other CPMB’s given				
- Total amount of CPMB’s given on behalf of majotary shareholder	-	-	-	-
- Total amount of CPMB’s given on behalf of other Group companies which are not in scope of 2 and 3	-	-	-	-
- Total amount of CPMB’s given on behalf of third parties which are not in scoppe of 3	-	-	-	-
Total	<u>103.521.268</u>	<u>6.237.373</u>	<u>6.668.778</u>	<u>54.762.378</u>

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 31 MARCH 2017

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

18. PROVISIONS, ONTINGENT ASSETS AND LIABILITIES (continued)

Collateral, Pledges, Mortgages, Bails (continued)

<u>CPMB’s given by the Company (Collaterals, Pledges, Mortgages, Bail)</u>	<u>31.12.2016</u>			
	<u>TL</u> <u>Equivalent</u>	<u>USD</u>	<u>EUR</u>	<u>TL</u>
A. CPMB’s given for company’s own legal personality	92.540.452	6.584.186	5.459.952	51.813.509
B. CPMB’s given on behalf of fully consolidated Companies	-	-	-	-
C. CPMB’s given of behalf of third parties for ordinary course of business	-	-	-	-
D. CPMB’s given within the scope of Corporate Governance Communique’s 12/2 clause	-	-	-	-
E. Other CPMB’s given	-	-	-	-
i Total amount of CPMB’s given on behalf of majotary shareholder	-	-	-	-
ii. Total amount of CPMB’s given on behalf of other Group companies which are not in scope of B and C	-	-	-	-
iii. Total amount of CPMB’s given on behalf of third parties which are not in scoppe of C	-	-	-	-
Total	-	-	-	-
	<u>92.540.452</u>	<u>6.584.186</u>	<u>5.459.952</u>	<u>51.813.509</u>

Group has not been given any “Other CPMB”. (31.12.2016: None).

As of 31 March 2017 and 31 December 2016, Colleterals, Pledges, Mortgages and Bails position table are as below;

<u>Collaterals, Pledges, Mortgages</u>	<u>31.03.2017</u>				<u>31.12.2016</u>			
	<u>Total TL</u> <u>Equivalents</u>	<u>USD</u>	<u>EUR</u>	<u>TL</u>	<u>Total TL</u> <u>Equivalents</u>	<u>USD</u>	<u>EUR</u>	<u>TL</u>
Collaterals	37.383.288	1.237.373	6.068.778	9.162.378	29.818.512	1.584.186	4.859.952	6.213.509
Pledges								
Mortgages	66.137.980	5.000.000	600.000	45.600.000	65.421.940	5.000.000	600.000	45.600.000
Total	<u>103.521.268</u>	<u>6.237.373</u>	<u>6.668.778</u>	<u>54.762.378</u>	<u>95.240.452</u>	<u>6.584.186</u>	<u>5.459.952</u>	<u>51.813.509</u>

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 31 MARCH 2017**

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

19. EMPLOYEE BENEFITS

<u>Provision for Short-Term Employee Benefits</u>	<u>31.03.2017</u>	<u>31.12.2016</u>
Unused Vacation Provision	730.826	711.803
Total	<u>730.826</u>	<u>711.803</u>

<u>Provision for Long-Term Employee Benefits</u>	<u>31.03.2017</u>	<u>31.12.2016</u>
Severance Pay Provision	3.424.719	3.498.780
Total	<u>3.424.719</u>	<u>3.498.780</u>

<u>Employee Benefit Obligations</u>	<u>31.03.2017</u>	<u>31.12.2016</u>
Payables to Personnel	265.283	193.819
Social Security Premiums Payable	609.454	1.137.913
Total	<u>874.737</u>	<u>1.331.732</u>

Under the Turkish Legislations, the Company 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 reaches the retirement age (58 for women and 60 for men).

Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees. IAS 19 (“Employee Benefits”) stipulates the development of Company’s liabilities by using actuarial valuation methods under defined benefit plans.

As at balance sheet date, provisions calculated according to assumption % 5 expected salary increasing rate and % 8,64 discount rate and about %3,81 real discount rate and retiring assumption as follows.

Main assumption is that maximum liability amount increases parallel to inflation rate for every service year. Therefore, discount rate used is the expected real rate adjusted for the future inflationary effects. Because of this, provisions in the accompanying financial statements as of March, 31 2016 are calculated by estimating present value of probable liabilities arising due to retirement of employees.

Group’s retirement pay provision calculated over amounting to TL 4.426 (31.12.2016: TL 4.297) which is effective from 01 January 2017.

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

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19. EMPLOYEE BENEFITS

The movement of provision for severance pay are as follows:

	1 January– 31 March 2017	1 January - 31 December 2016
Provision as of 1 st January	3.498.780	2.609.471
Service Cost	232.906	865.242
Interest Cost	76.642	219.251
Severance Pay Cancelled	(38.978)	(416.930)
Defined Benefit Plans Remeasurement Gain / Loss (*)	(344.631)	221.746
Total Provisions as of Period End	3.424.719	3.498.780

(*) As of March 31, 2017, amounting to TL 344.631 (2016: TL 221.746) defined benefit plans remeasurement gain / losses booked in statement of comprehensive income.

The total expense has been charged to the general administrative, marketing and general production expenses.

20. OTHER ASSETS AND LIABILITIES

<u>Other Current Assets</u>	<u>31.03.2017</u>	<u>31.12.2016</u>
Deferred VAT	14.325.951	12.054.163
Work Advances	1.422.152	270.245
Personnel Advances	597.437	-
Total	16.345.540	12.324.408

Other Non-Current Assets

None. (31.12.2016: None.)

Other Short-Term Liabilities

None. (31.12.2016: None.)

Other Long-Term Liabilities

None. (31.12.2016: None.)

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 31 MARCH 2017

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21. CAPITAL, RESERVES AND OTHER EQUITY COMPONENTS

a) Capital

Company’s capital structure as of 31 March 2017 and 31 December 2016 are as follows;

	<u>31.03.2017</u>		<u>31.12.2016</u>	
	<u>Pay Oranı</u>	<u>Pay Tutarı</u>	<u>Pay Oranı</u>	<u>Pay Tutarı</u>
<u>Shareholders</u>	<u>(%)</u>	<u>TL</u>	<u>(%)</u>	<u>TL</u>
İsmail Katmerci	46,11	11.528.333	46,11	11.528.333
Havva Katmerci	4,40	1.100.000	4,40	1.100.000
Mehmet Katmerci	4,40	1.100.000	4,40	1.100.000
Ayşenur Çobanoğlu	4,40	1.100.000	4,40	1.100.000
Furkan Katmerci	4,40	1.100.000	4,40	1.100.000
Public Part (*)	36,29	9.071.667	36,29	9.071.667
Capital	100,00	25.000.000	100,00	25.000.000
Unpaid Capital (-)		-		-
Paid-in Capital		25.000.000		25.000.000

(*) The public part of the capital are trading in Istanbul Stock Exchange, Inc. (BIST).

Company’s paid capital is amounting to TL 25.000.000. (31.12.2016: TL 25.000.000) Capital consist of 25.000.000 registered shares. Each shares nominal value is amounting to 1 TL. 2.000.000 pcs. of shares nominative A Group and 23.000.000 pcs. of shares are nominative B Group shares. (31.12.2016 None.). There is not any restriction on Katmerciler shares (31.12.2016 None).

A group shares are privileged and 1.600.000 pcs. own by İsmail Katmerci, 100.000 pcs. own by Havva Katmerci, 100.000 pcs own by Mehmet Katmerci, 100.000 pcs own by Ayşenur Çobanoğlu and 100.000 pcs own by Furkan Katmerci. Privileged shares gives right to owner as mentioned below;

Company manages by the board of management consist of 5 people chosen by general assembly from the A group shareholders accordingly with Turkish Commercial Code. (Articles of Association article 10) issued shares are fully paid.

b) Re-acquired Shares

Company has been finished repurchase program by 23.05.2014 dated and 2014/17 numbered board decision which was started by 27.12.2013 dated and 2013/29 numbered board decision. Meanwhile, Company has been reacquired amounting to TL 16.000 nominal valued shares on 27.01.2014 date to amounting to TL 38.827 from 2,40 – 2,45 price range.

Company has been re-started repurchase program on 22.07.2016 according to 21.07.2016 dated Capital Market Board’s decision to be applied until a Board’s second decision. Meanwhile, Company has been reacquired amounting to TL 139.609 nominal valued shares on 22.07.2016, 25.07.2016, 24.08.2016 and 29.08.2016 dates to amounting to TL 889.823 from 5,64 – 6,83 price range and Company has been reacquired amounting to TL 33.500 nominal valued shares amounting to TL 232.648 from 6,91 – 6,96 price range therefore Company’s own shares has been increased to amounting to TL 189.109 after this purchase.

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21. CAPITAL, RESERVES AND OTHER EQUITY COMPONENTS (continued)

<u>c) Revaluation and Remeasurement Gain / (Loss)</u>	<u>31.03.2017</u>	<u>31.12.2016</u>
Tangible Assets Revaluation and Remeasurement Gain / (Loss)	11.259.003	11.259.003
<u>Tangible Assets Revaluation and Remeasurement Gain / (Loss)</u>	<u>31.03.2017</u>	<u>31.12.2016</u>
Opening Balance	11.259.003	9.976.331
Increase from Tangible Assets Revaluation	-	1.350.607
Deferred Tax Liability from Revaluation	-	(67.935)
Closing Balance	<u>11.259.003</u>	<u>11.259.003</u>
<u>d) Other Cumulative Comprehensive Income / Expense not to be Reclassified in Profit or Loss</u>	<u>31.03.2017</u>	<u>31.12.2016</u>
Defined Benefit Plans Remeasurement Gain / Loss	(228.953)	(504.658)
	<u>(228.953)</u>	<u>(504.658)</u>
<u>e) Restricted Reserves Outgoing from Profit</u>	<u>31.03.2017</u>	<u>31.12.2016</u>
Legal Reserves	3.150.869	3.150.869
Total	<u>3.150.869</u>	<u>3.150.869</u>
<u>f) Retained Profit / (Loss)</u>	<u>31.03.2017</u>	<u>31.12.2016</u>
Retained Profit / (Loss)	36.167.777	26.570.969
Total	<u>36.167.777</u>	<u>26.570.969</u>
<u>g) Minority Shares</u>	<u>31.03.2017</u>	<u>31.12.2016</u>
Balance at 1 January	22.571	17.910
Additions / Disposals	2.593	(3)
Minority Profit / (Loss) Share	(1.295)	4.664
Total	<u>23.866</u>	<u>22.571</u>
<u>h) Merge Effect of Common Controlled Entity and Business</u>	<u>31.03.2017</u>	<u>31.12.2016</u>
Merge Effect of Common Controlled Entity and Business (*)	(1.759.039)	(1.759.039)
Total	<u>(1.759.039)</u>	<u>(1.759.039)</u>

(*) Company has been purchased Isıpan and Profil’s amounting to TL 89.000 and TL 466.677 nominal amount of shares by paying respectively amounting to TL 89.000 and TL 4.017.133 from shareholder İsmail Katmerci. This operation considered as “Merging of Common Controlled Entity and Business” and amounting to TL 1.759.039 difference between purchasing price and fair value discounted from purchasing price and presented as “Merge Effect of Common Controlled Entity and Business” in equity.

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21. CAPITAL, RESERVES AND OTHER EQUITY COMPONENTS (continued)

Profit Distribution

Publicly held companies, the CMB's profit distribution came into force from the date of February 1, 2014 II-1.19 Dividend accordance with the notification.

Partnerships, profits will be determined by the General Assembly in accordance with the dividend distribution policy and in accordance with the provisions of the relevant legislation by the General Assembly distributes. Comes within the scope of the notification a minimum distribution rate has not been determined. Companies based in contract or in the manner specified in the dividend distribution policy will pay dividends. In addition, dividends may be paid in installments of equal or different, consistent and interim financial statements of the profits in advance may distribute dividends in cash.

TCC based on separation of reserves required by the articles of association or dividend distribution policy for the shareholders determine dividend allottees other reserves to allocate to the next year to transfer profit and dividend shareholders, management board members subsidiaries to their employees and shareholders, persons other than the profit share to be distributed could not be given, as determined for the shareholders in cash dividends are paid on these shares may not be distributed to persons on the card.

Company's board of directors changed profit distribution policy with 29.04.2014 dated and 2014/13 numbered board decision which was related to 2010 and following years and decided with 25.02.2011 dated and 2011/12 numbered board decision within the scope of 6362 numbered Capital Market Board Law II.19.1 Profit Distribution announcement announced on 23 January 2014. The decision approved by shareholders on 2013 dated ordinary meeting of the general assembly.

22. INCOME TAXES

Current Tax Related to Assets

	<u>31.03.2017</u>	<u>31.12.2016</u>
Prepaid Taxes and Funds	2.193	2.193

Tax Provision

	<u>31.03.2017</u>	<u>31.12.2016</u>
Current Income Tax Provision (-)	(573.493)	(2.196.848)
Deferred Tax Provision Income / (Loss)	22.997	239.557
Total	<u>(550.496)</u>	<u>(1.957.291)</u>

Corporate Tax

The Group is subject to Turkish corporate taxes. The estimated tax liabilities of the Group's results for the period is recognized in the accompanying consolidated financial statements.

The corporate tax rate on taxable profit will be accrued expense in determining accounting profit and tax-exempt non-deductible expenses, gains and other non-taxable income deductions (prior year losses and investment incentives) on taxable income after the deduction of calculated.

Corporations calculate and pay quarterly temporary corporate tax of 20%. (2016: %20).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED 31 MARCH 2017

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

22. INCOME TAXES (continued)

The tax legislation provides for a temporary tax (prepaid tax) of 20% (20% in 2016) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final tax liability for the year.

Carried back to Turkey on tax there is no procedure. The annual accounting period until the close of the fourth month following the month of 25th. However, the tax authorities review the accounting records for five years and amount of tax payable may vary if errors are detected.

Income Tax Withholding

In addition to corporate taxes, their share of the profit from the distribution of dividends in the event of the company's income in the statements, including non-resident institutions and branches of foreign companies in Turkey on any dividends distributed, except for the calculation of income tax withholding is required. Income tax 24 April 2003 - 22 July 2006 was 10% in all companies. This rate uses as 15% from 22 July 2006 with 2006/10731 numbered decision of the Council of Ministers. Undistributed dividends incorporated in share capital are not subject to income tax withholding..

A reconciliation of income tax expense in the period are as follows:

Tax Liability for the Period

	<u>31.03.2017</u>	<u>31.12.2016</u>
Profit Before Tax	3.101.332	11.558.763
Taxable Profit	3.101.332	11.558.763
Corporate Tax Rate (%20)	20%	20%
Calculated Tax	620.266	2.311.753
Nonallowable Charges	108.397	338.864
Exemptions and Deductions	(195.182)	(1.487.920)
Deferred Tax Income, Net	22.997	239.557
Other	17.014	794.594
Total	<u>573.493</u>	<u>2.196.848</u>

Deferred Tax:

Deferred tax is accounted for using the liability method in respect of temporary differences arising from differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable (statutory) profit. Deferred tax is calculated using tax rates that have been enacted in the period in which assets acquired and/or liabilities carried out and included in the statement of income as income or expense.

Deferred tax rate is %20. (2016 :%20)

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22. INCOME TAXES (continued)

	31 March 2017		31 December 2016	
	TEMPORARY DIFFERENCES	Deferred Tax Assets / (Liabilities)	TEMPORARY DIFFERENCES	Deferred Tax Assets / (Liabilities)
Deferred Tax Liabilities	-	(252.576)	-	(990.359)
Terminated Provisions (Doubtful Receivables+ Inventory Impairment)	-	-	46.853	(9.371)
Previous Period Inventory Rediscount Adjustment (Financial Expenses)	165.245	(33.049)	323.066	(64.613)
Receivable Rediscount (Reversal)	167.225	(33.445)	192.591	(38.518)
Real Estate Appreciation (Investment Purpose)	-	-	135.250	(27.050)
Tangible Asset Sales Adjustment (TPL Sales Loss Reversal+IFRS Profit on Sale)	-	-	22.982	(4.596)
TPL(Tax Procedure Law) Amortization Expense Reversal	765.742	(153.148)	3.033.552	(606.710)
Vacation Provision Reversal	14.018	(2.804)	117.863	(23.573)
Severance Pay Provision Reversal	38.978	(7.796)	416.930	(83.386)
Payable Rediscount	111.669	(22.334)	118.962	(23.792)
Other Ifrs Adjustments	-	-	861	(172)
Warranty Expense Provision Reversal	-	-	776.045	(155.209)
Deffered Tax Liability Deducted from Real Estate (Intended Purpose) Value Fund	-	-	932.634	46.632
Reclassification of Incomes Capitalized According to TPL	-	-	-	-
Deferred Tax Assets	-	275.573	-	1.229.916
Receivable Impairment (Receivables Booked as Expense)	-	-	(13.600)	2.720
Tangible Assets Sales Adjustment (TPL Sales Profit Reversal+IFRS Sales Loss)	-	-	(27.727)	5.545
Reclassification of Loan Expenses Capitalized According to TPL	-	-	(426.777)	85.355
Current Period IAS 16, IAS 38 Amortization Expense	(775.447)	155.090	(3.026.631)	605.326
TPL(Tax Procedure Law) Amortization Expense Adjustment	-	-	-	-
Severance Pay Provision	(309.545)	61.909	(1.084.493)	216.899
Receivable Rediscount	(162.449)	32.490	(167.225)	33.445
Impairment of Inventories	-	-	(165.245)	33.049
Vacation Provision	(33.041)	6.608	(267.541)	53.508
Other Ifrs Adjustments	-	-	(56.554)	11.311
Warranty Expense Provision	-	-	(335.900)	67.180
Provision for Doubtful Receivables	-	-	-	-
Payable Rediscount (Reversal)	-	-	(237.994)	47.599
Terminated Provisions Adjustment	(97.380)	19.476	(15.963)	3.193
Deferred Tax Assets from Real Estate Impairment	-	-	(557.090)	111.418
Deferred Tax Liability Deducted from Real Estate (Intended Purpose) Value Fund	-	-	(932.634)	(46.632)
Net, Deffered Tax Receivables Reflected to Profit / (Loss)	-	22.997	-	239.557

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23. EARNING PER SHARE

<u>Earning Per Share</u>	<u>01.01. - 31.03.2017</u>	<u>01.01. - 31.12.2016</u>
Net Profit / (Loss), Parent	2.549.541	9.596.808
Weighted Average Number of Shares	25.000.000	25.000.000
Earning / (Loss) Per Share from Operating Activities	0,102	0,384
Diluted Earning / (Loss) Per Share from Operating Activities	0,102	0,384

24. QUALITY AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS

a) Capital Risk Management

The aims of Group are to be beneficial for all shareholders and maintaining the best capital combination to reduce capital cost and keeping on entity when managing the capital. The Group's capital risk management, calculating as disclosed in note 8 including loans, debts, and, respectively, of cash and cash equivalents as disclosed in note 6 , paid-in capital, defined benefit plans, re-measurement gains / losses, capital reserves, profit reserves and retained earnings / (loss) comprising shareholders' equity are taken into account and as disclosed in note 21.

Group capital cost and each risks regarding capital evaluate by executives. According to the evaluate company aim to equalise the capital structure by borrowing, redemption, dividend payment and issuance of shares.

The Group uses Liabilities / Equity rate while they follow capital sufficiency. This rate is found by net liabilities divided by total equity. Net liabilities is counted by cash and cash equivalents minus total liabilities which appears in balance sheet.

Equity to debts ratio as of March 31, 2017 and December 31, 2016 are as follows:

	<u>31.03.2017</u>	<u>31.12.2016</u>
Financial Liabilities	239.283.112	164.776.461
Less : Cash and Cash Equivalents	(48.863.866)	(6.161.712)
Net Financial Liabilities	190.419.246	158.614.749
Total Equity	75.001.766	72.175.225
Liabilities / Equity Ratio	2,54	2,20

The Group's current period capital risk management strategy doesn't differ compared to previous periods.

b) Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price 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 Company's financial performance.

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24. QUALITY AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (continued)

b) Financial Risk Factors (continued)

b.1) Credit Risk

Financial losses due to Goup’s receivables and financial assets which result from not implementing agreement clauses related to financial assets by a customer or other party constitutes credit risk. Company trying to decrease credit risk by making operations with confidential parties and attain enough collateral. Trade receivables contain lots of customers rathered on same sector and geographical area. Credit consideration making over Customer’s trade receivables permanently.

31.03.2017	Receivables				Cash and Cash Equivalents
	Trade Receivables		Other Receivables		
Current Period	Related	3rd	Related	3rd	Banks Deposit
	Parties	Parties	Parties	Parties	
The maximum amount of exposure to credit risk at the end of the reporting period					
(A+B+C+D) (1)	707.087	102.682.222	-	2.055.437	48.809.335
- Maximum risk guaranteed with collateral etc.(*)	-	-	-	-	-
A. Financial assets that are either past due or impaired (2)	707.087	102.682.222		2.055.437	48.809.335
B. The amount of financial assets that are past due as at the end of reporting period but not impaired (4)	-		-	-	-
C. The amount of financial assets that are impaired (3)	-	-	-	-	-
- Overdue (gross book value)	-		-	-	-
- Impairment (-)	-	2.971.777	-	-	-
- Net value guaranteed with collateral etc.	-	(2.971.777)	-	-	-
- Not overdue (gross book value)	-	-	-	-	-
- Impairment (-)	-	-	-	-	-
- Net value guaranteed with collateral etc.	-	-	-	-	-
D. Off balance sheet credit risk amount	-	-	-	-	-

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24. QUALITY AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (continued)**b) Financial Risk Factors (continued)****b.1) Credit Risk (continued)**

31.12.2016	Receivables				Cash and Cash Equivalents
	Trade Receivables		Other Receivables		
Previous Period	Related	3rd	Related	3rd	Banks Deposit
	Parties	Parties	Parties	Parties	
The maximum amount of exposure to credit risk at the end of the reporting period					
(A+B+C+D) (1)	687.628	98.712.534	-	2.677.752	6.142.724
- Maximum risk guaranteed with collateral etc.(*)	-	-	-	-	-
A. Financial assets that are either past due or impaired (2)	687.628	98.712.534		2.677.752	6.142.724
B. The amount of financial assets that are past due as at the end of reporting period but not impaired (4)	-		-	-	-
C. The amount of financial assets that are impaired (3)	-	-	-	-	-
- Overdue (gross book value)	-		-	-	-
- Impairment (-)	-	2.911.976	-	-	-
- Net value guaranteed with collateral etc.	-	(2.911.976)	-	-	-
- Not overdue (gross book value)	-	-	-	-	-
- Impairment (-)	-	-	-	-	-
- Net value guaranteed with collateral etc.	-	-	-	-	-
D. Off balance sheet credit risk amount	-	-	-	-	-

b.2) Market Risk Management

The market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Corporate Management periodically assign strategies and limits regarding asset management, asset management manage by asset managers within this scope.

b.2.1) Foreign Exchange Risk Management

Foreign currency transactions expose the Group to foreign currency risk. These risks are monitored and limited by the analysis of foreign currency position.

The group's foreign currency denominated monetary and non-monetary assets and liabilities as of the date of the balance sheet are as follows:

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24. QUALITY AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (continued)

b.2.1.) Foreign Exchange Risk Management (continued)

CONSOLIDATED EXCHANGE POSITION TABLE							
	31.03.2017			31.12.2016			
	TL Equivalent	ABD	EURO	TL Equivalent	ABD	EURO	GBP
1.Trade Receivables	79.660.702	10.396.639	10.703.245	70.561.877	9.472.878	10.033.943	-
2a. Monetary Financial Assets (including cash and bank accounts)	47.576.971	166.566	12.018.245	2.681.875	427.582	317.294	-
2b. Non-Monetary Financial Assets	14.912.315	1.246.952	2.654.646	8.054.318	870.289	1.345.481	-
3. Other				-	-	-	-
4. Current Assets (1+2+3)	142.149.988	11.810.157	25.376.135	81.298.070	10.770.749	11.696.717	-
5. Trade Receivables	-	-	-	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-	-	-	-
6b. Non-Monetary Financial Assets	-	-	-	-	-	-	-
7. Other	-	-	-	-	-	-	-
8. Non-Current Assets (5+6+7)	-	-	-	-	-	-	-
9. Total Assets (4+8)	142.149.988	11.810.157	25.376.135	81.298.070	10.770.749	11.696.717	-
10. Trade Payables	12.301.353	617.980	2.572.160	12.974.100	474.895	3.046.236	375
11. Financial Liabilities	35.557.252	89.598	9.014.467	48.760.647	194.126	12.959.239	-
12a. Other Monetary Financial Liabilities	467.069	123.587	4.449	3.235.653	808.883	104.863	-
12b. Other Non-Monetary Financial Liabilities	6.271.657	911.765	755.855	5.317.899	719.391	751.023	-
13. Short-Term Liabilities (10+11+12)	54.597.332	1.742.929	12.346.930	70.288.299	2.197.295	16.861.360	375
14. Trade Payables							
15. Financial Liabilities	30.349.633	342.258	7.446.791	18.082.505	342.258	4.549.457	-
16a. Other Monetary Financial Liabilities							
16b. Other Non-Monetary Financial Liabilities							
17. Long-Term Liabilities (14+15+16)	30.349.633	342.258	7.446.791	18.082.505	342.258	4.549.457	-
18. Total Liabilities (13+17)	84.946.964	2.085.188	19.793.721	88.370.804	2.539.553	21.410.817	375
19. . Off Balance Sheet Derivative Instruments Net Assets / (Liabilities) (19a-19b)							
19a.Total Assets Hedged							
19b.Total Liabilities Hedged							
20. Net Foreign Currency Assets / (Liabilities) (9-18+19)	57.203.024	9.724.970	5.582.414	(7.072.734)	8.231.196	(9.714.100)	(375)
21. Monetary Items Net Foreign Currency Assets / (Liability) Position (IFRS 7.B23) (1+2a+5+6a-10-11-12a-14-15-16a)	48.562.366	9.389.782	3.683.623	(9.809.153)	8.080.299	(10.308.558)	(375)
22. Total Fair Value of Financial Instruments Used for Currency Hedge							

24. QUALITY AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (continued)

b.2.1.) Foreign Exchange Risk Management (continued)

The Group is exposed to foreign exchange risk arising primarily with respect to transactions denominated in USD, EURO and GBP.

The following table details the Company’s sensitivity to a 10% increase and decrease in the TL against USD, Euro and GBP. 10% is used in the reporting of currency risk to the key management and it represents the management’s expectation on the potential exchange rate fluctuations. Sensitivity analysis can only made on the year-end outstanding foreign currency denominated monetary items and it shows the year-end effects of the 10% of exchange currency fluctuation on the related items.

Exchange Rate Analysis Table		
31.03.2017		
	Appreciated Exchange Rate	Depreciated Exchange Rate
Increase of 10% change in USD against TL:		
1- USD Net Assets / Liabilities	3.538.527	(3.538.527)
2- The Amount of USD Hedging (-)		
3- USD Net Effect (1+2)	3.538.527	(3.538.527)
Increase of 10% change in EUR against TL:		
4- EUR Net Assets / Liabilities	2.181.775	(2.181.775)
5- The Amount of EUR Hedging (-)		
6- EUR Net Effect (4+5)	2.181.775	(2.181.775)
Increase of 10% change in other exchange against TL:		
4- Other Exchange Net Assets / Liabilities		
5- The Amount of Other Exchange Hedging (-)		
6- Other Exchange Net Effect (4+5)	-	-
TOPLAM (3+6+9+12)	5.720.302	(5.720.302)

Exchange Rate Analysis Table		
31.12.2016		
	Appreciated Exchange Rate	Depreciated Exchange Rate
Increase of 10% change in USD against TL:		
1- USD Net Assets / Liabilities	2.896.723	(2.896.723)
2- The Amount of USD Hedging (-)		
3- USD Net Effect (1+2)	2.896.723	(2.896.723)
Increase of 10% change in EUR against TL:		
4- EUR Net Assets / Liabilities	(3.603.834)	3.603.834
5- The Amount of EUR Hedging (-)		
6- EUR Net Effect (4+5)	(3.603.834)	3.603.834
Increase of 10% change in other exchange against TL:		
4- GBP Net Assets / Liabilities	(162)	162
5- The Amount of GBP Hedging (-)		
6- GBP Net Effect (4+5)	(162)	162
TOTAL (3+6+9+12)	(707.273)	707.273

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25. FINANCIAL INSTRUMENTS (FAIR VALUE OF FINANCIAL RISK MANAGEMENT DISCLOSURES)

	The Fair Value of the Financial Assets	Loans and Receivables (Including Cash and Cash Equivalents)	Financial Assets Available for Sale	Financial Liabilities are Measured at Amortized Cost	Book Value	Notes
31.03.2017						
Financial Assets						
Cash and Cash Equivalents	-	48.863.866	-	-	48.863.866	6
Trade Receivables	-	103.389.309	-	-	103.389.309	9
Financial Investments	2.123.692	-	-	-	2.123.692	7
Financial Liabilities						
Financial Payables	-	-	-	239.283.112	239.283.112	8
Trade Payables	-	-	-	40.360.505	40.360.505	9
Other Financial Liabilities	-	-	-	-	-	
31.12.2016						
Financial Assets						
Cash and Cash Equivalents	-	6.161.712	-	-	6.161.712	6
Trade Receivables	-	99.400.164	-	-	99.400.164	9
Financial Investments	1.076.191	-	-	-	1.076.191	7
Financial Liabilities						
Financial Payables	-	-	-	164.776.461	164.776.461	8
Trade Payables	-	-	-	35.753.887	35.753.887	9
Other Financial Liabilities	-	-	-	-	-	

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25. FINANCIAL INSTRUMENTS (FAIR VALUE OF FINANCIAL RISK MANAGEMENT DISCLOSURES) (continued)

Financial Instrument fair values determine as follows;

- First Level: Financial Instruments valued with market values of the similar instruments which traded on active market.
- Second Level: Financial Instruments valued with data uses to find price which observable directly or indirectly on the market in addition to first level.
- Third Level: Financial Instruments valued with data which not based on data uses to find fair value of the instruments on the market.

Company does not has any financial assets and liabilities shown as fair values.

26. POST BALANCE SHEET EVENTS

31.03.2017

- Fourth coupon payment amounting to TL 1.426.644 made on 10.05.2017 regarding TRSKTMR51711 ISIN coded Private Sector Bond amounting to TL 36.000.000 and 365 days maturity which was issued on 09.05.2016.
- Third coupon payment amounting to TL 473.100 made on 10.05.2017 regarding TRSKTMR81718 ISIN coded Private Sector Bond amounting to TL 12.000.000 and 365 days maturity which was issued on 10.08.2016.
- Company redeemed its own 45.475 pcs of nominal shares share amounting to TL 473.100 from price range of 9,69 - 9,78 on 05.04.2017.
- Company redeemed its own 30.387 pcs of nominal shares share amounting to TL 291.220 from price range of 9,54 - 9,65 on 14.04.2017.
- Company has became %20 and amounting to TL 800.000 share partner of Lika Savunma Sanayii ve Ticaret A.Ş. on 04.05.2017 which has amounting to TL 4.000.000 capital.

31.12.2016:

- As at 31 December 2016, TL 4.297 severance pay ceiling has been increased to TL 4.426 to be effective from 1 January 2017.
- Third coupon payment amounting to TL 1.259.172 made on 07.02.2017 regarding TRSKTMR51711 ISIN coded Private Sector Bond amounting to TL 36.000.000 and 365 days maturity which was issued on 09.05.2016.
- Second coupon payment amounting to TL 422.244 made on 08.02.2016 regarding TRSKTMR81718 ISIN coded Private Sector Bond amounting to TL 12.000.000 and 365 days maturity which was issued on 10.08.2016.
- The company issued bond which has TL 50.000.000 par value, 365 days maturity, TRSKTMR31812 ISIN code to the qualified investors on 06.03.2017.

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27. DISCLOSURE OF OTHER MATTERS

None. (31.12.2016: None).