



ALARKO CARRIER SANAYİ VE TİCARET A.Ş.

Annual Report 2017

2017 Fiscal Year
General Assembly Meeting
March 28, 2018

Registered Capital
TL 10.800.000

Issued Capital
TL 10.800.000

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The Main Manufacturing Plant - Gebze

MESSAGE FROM THE BOARD OF DIRECTORS

Distinguished Shareholders,

The world and Turkish economies have delivered a growth performance which exceeded 2017's expectations. The US economy has especially achieved a fast growth rate; it has not only come close to the inflation and unemployment targets, but also achieved a well balance of these targets. The Eurozone's performance was above expectations while the Japanese and Chinese economies have also received their share of this positive trend. The prices of raw materials, materials, fuels and intermediate products have also naturally risen due to the impact of the aforementioned factors. Developing countries faced difficulties affording these increasing prices. However, they managed to maintain their competitiveness thanks to the adjustment mechanisms developed for their currency regimes, on top of money market instruments.

Supported by the impact of the balanced policy, the US Central Bank preferred a smooth transition for 2017 and aimed to prevent the economy from overheating. Thus, the fundraising facilities in the money markets of developing countries have not been reduced at all despite the slight increase in costs. Nevertheless, we have witnessed a volatile trend in these countries' policy interest rates and the performance of their currencies against USD and EURO.

Affected by both internal and external trends, the Turkish economy has also shown a similar growth in parallel to the developments in the global economy. Expansionary policies including the Credit Guarantee Fund, tax exemption and tax incentives, as well as subsidies provided to some industries, have helped Turkey's economy achieve a growth rate of 7%. Helping reach this growth rate, the tourism industry was rejuvenated despite the geopolitical risks in our region. Yet, our structural problems in the economy still continued. While the inflation rate reached almost 12%, the unemployment rate could not go any lower than 10%. At the same time, as foreign trade and current account deficit increased significantly, the exports to imports ratio fell, and the ratio of current deficit to gross national product increased.

We expect 2018 to be a similar year to 2017 with respect to the developments in both the global and Turkish economies. The growth trend will probably continue in 2018 while political problems and hot conflicts encountered all around the world continue to be risk factors.

We would like to highlight that the fast and unexpectedly high interest rate increase by the US Central Bank in 2018 coupled with the launch of monetary tightening policies in the Eurozone will continue to pose a risk for developing countries. This may cause significant increase in funding costs, especially in countries with high foreign trade and current deficit such as Turkey, and may even accelerate exchange rate increases. Therefore, it is of vital importance to grant incentives aiming to maintain competitiveness of the industrial and service sectors. This can be achieved by taking measures for decreasing funding costs and, above all, launching structural reforms as soon as possible in 2018.

As it has done in previous years, our company left 2017 behind with success. We have met our 2017 targets thanks to our uncompromising operational and financial discipline. Backed by our organizational structure allowing us to make use of the right pricing strategies and our management information systems, we aim to further increase our competitiveness each year. We attribute this success to the unique contribution of our distinguished employees, who have always adopted a methodical and systematic working approach.

We would like to take this opportunity and express our motivation and intent to continue hitting our targets in 2018. As we thank you and all of our shareholders for the invaluable support, we wish to extend our kind regards to this esteemed assembly.

Board of Directors

BOARD OF DIRECTORS AND AUDITORS

Board of Directors *

<u>Name and Surname</u>	<u>Task</u>	<u>From...</u>	<u>To...</u>
Niv Garih	Chairman	23.03.2017	23.03.2019
Muriel Makharine Topazzini	Vice Chairman	23.05.2017	23.03.2019
Didier Claude Da Costa	Vice Chairman	23.03.2017	23.05.2017
Ümit Nuri Yıldız	Director	23.03.2017	23.03.2019
Giorgio Elia	Director	23.03.2017	23.03.2019
Mehmet Dönmez	Independent Director	23.03.2017	23.03.2019
Hatice Figen Eren	Independent Director	23.03.2017	23.03.2019

*Members of the Board of Directors don't have any executive function in the Company.

Auditor

BDO Denet Bağımsız Denetim ve Danışmanlık A.Ş.
(Member, BDO International Network) 29.03.2017 28.03.2018

Independent Auditor

BDO Denet Bağımsız Denetim ve Danışmanlık A.Ş.
(Member, BDO International Network) 29.03.2017 28.03.2018

Powers and Limits of Members of the Board of Directors

Powers and responsibilities of the Chairman of the Board and Board Members and managers are set forth in the Company's Articles of Association and the relevant articles of the Turkish Commercial Code.

INFORMATION REGARDING MEMBERS OF THE BOARD

Niv GARİH

Chairman of the Board

Born in 1981, Niv Garih graduated from New York University, Stern School of Business, Department of Finance and International Business Administration with honors in 2006. Mr. Garih worked in JP Morgan's Asset Management division in New York from 2006 to 2008. He later turned to Turkey in 2009 and started working at Alarko Holding A.Ş.'s Business development, feasibility and valuation departments. Since 2013, he has been heading the investor relation activities of Alarko Holding A.Ş. and its subsidiaries. He has been the Member of the Board of Alarko Holding A.Ş. since 2014. Niv Garih is married, has one daughter and speaks English and French.

Niv Garih does not qualify as independent director according to the Capital Markets Board Communiqué Numbered II-17.1.

Muriel Makharine TOPPAZINI

Deputy Chairman of the Board

Born in Metz, France in 1964, Toppazzini joined UTC (United Technologies Corporation) in 1994 and started to work as a Senior Lawyer at Carrier Europe & Transcontinental Operations based in Paris. She was appointed as Executive Assistant to Geraud Darnis, President of Carrier in the United States. In 2007, she was promoted to the Vice Presidency of the Department of Legal Affairs at Carrier EMEA and in 2011 she was appointed as the Vice President of Carrier. She worked as Vice President and Chief Legal Counsel of the UTC Building & Industrial Systems Europe, Middle East and Africa between 2013 and 2015. Since November 2015, she is the Vice President and Chief Legal Counsel of the UTC Climate, Controls & Security International Operations. Toppazzini has received her Doctor of Law diploma from the Faculty of Law, University of Boston, USA and her bachelor's degree from the Faculty of Law, Sorbonne University, Paris. She is married and has three children.

Muriel Makharine Toppazzini does not qualify as independent director according to the Capital Markets Board Communiqué Numbered II-17.1.

Didier Claude DA COSTA

Deputy Chairman of the Board

Da Costa was born in Lyon, France in 1962. Da Costa who is a refrigeration engineer began to work as a service sales engineer at the Carrier Group in 1985. After serving at Carrier France as a Service and Spare Parts Manager in 1995, he became Quality Manager at Carrier France in 1997. Da Costa also undertook the task of Carrier Global Platform Management for small refrigeration group products in 2000 and was appointed Deputy Chairman in charge of Carrier's European Operation in 2006. He has been Chairman in charge of air conditioning at UTC CCS (United Technologies Corporation Climate, Control Security) Europe since 2013. He speaks English and Spanish in addition to his native French. His petition for resignation from Board membership was approved at the Board Meeting dated 23.05.2017.

Didier Claude Da Costa does not qualify as independent director according to the Capital Markets Board Communiqué Numbered II-17.1.

Ümit Nuri YILDIZ

Member of the Board

Ümit Nuri Yıldız was born in Erzurum in 1966. He graduated from the Department of Business

Administration, Faculty of Political Sciences of Ankara University in 1986. He obtained his MSc degree from University of Illinois. In 1987, he started working as Assistant Auditor at Board of Auditors of the Ministry of Finance. Yıldız continued to work in the Ministry as Auditor and Chief Auditor until 1997. He was appointed Deputy General Manager of the Turkish Employment Organization in 1997. He resigned from his position and joined the Alarko Group of Companies in 1998. Yıldız who is presently working as Financial Analysis, System and Planning Coordinator at Alarko Group is also a member of the Board of various companies within the group. Yıldız speaks English and is married with two children.

Ümit Nuri Yıldız does not qualify as independent director according to the Capital Markets Board Communiqué Numbered II-17.1.

Giorgio ELIA Member of the Board

Elia was born in Cairo, Egypt, in 1966. He has a degree in International Modern Accounting from the American University in Cairo and an MBA degree from Cairo University. After working in various finance and management positions at Pirelli for 17 years, he joined the Carrier Group in 2007 and started to work as General Manager at Miraco in which Carrier is a minority shareholder in Egypt. Until recently, he was the Eastern Europe Deputy Chairman and General Manager of Otis. At present, he is the Deputy Chairman and General Manager in charge of the Middle East of UTC-CCS (United Technologies Corporation-Climate Control and Security). In addition to his native Italian, Elia speaks English, French and Arabic.

Giorgio Elia does not qualify as independent director according to the Capital Markets Board Communiqué Numbered II-17.1.

Hatice Figen EREN Independent Member of the Board

Eren was born in France in 1978. She graduated from the Department of European Law of Strasbourg Robert Schuman University in 2001 and the Department of European Law of the University of Luxemburg in 2002. She worked at the Wildgen Law Office from 2003 to 2006 and as a lawyer at the Loyens Loyeff Law Office from 2006 to 2009 and finally as the Manager of the Law Department of the Equity Trust company in 2010. Eren is presently working as a lawyer in the Oaktree Capital Management Company. In addition to her native French, Eren speaks English and Turkish.

Hatice Figen Eren's nomination was accepted at the Board meeting of Alarko Carrier Industry and Trade Co. held on 23.02.2017 and Eren qualifies as independent director according to the Capital Markets Board's Communiqué Numbered II-17.1.

Mehmet DÖNMEZ Independent Member of the Board

Dönmez was born in Kayseri in 1944. He studied in Military Academy and has left the Academy when he was in the final year in 1963. He worked at the Accounting Department of the İmar Ltd. Co. Ankara from 1964 to 1966. After holding different posts at the Alarko Group of Companies where he started working in 1966, he retired at 31.03.2007 while he was holding the post of Group Coordinator and Deputy General Manager at the Ankara Alarko Carrier Industry and Trade Company. He served as member of the Board of the same company for one year.

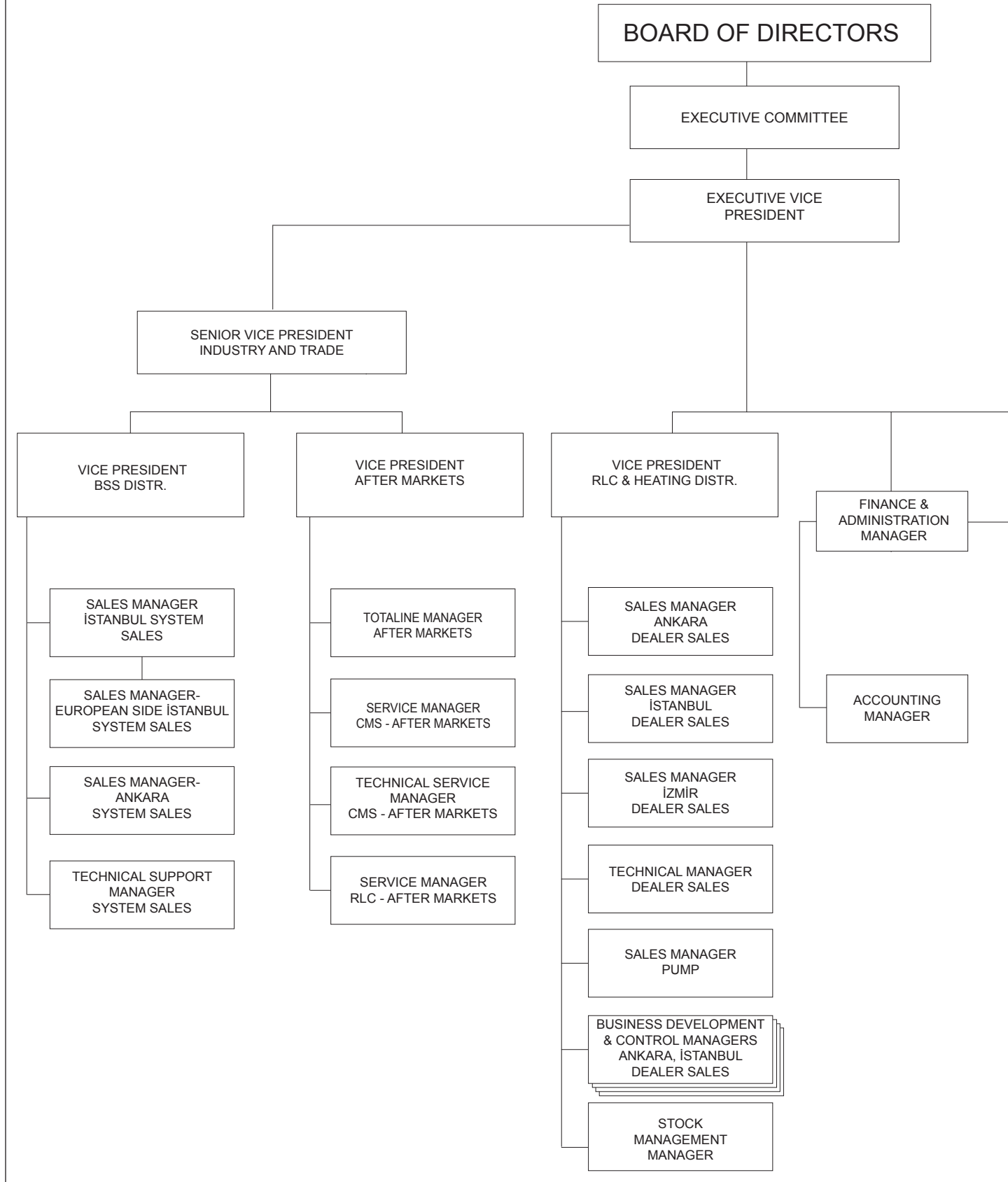
Mehmet Dönmez's nomination was accepted at the Board meeting of Alarko Carrier Industry and Trade Co. held on 23.02.2017 and Dönmez qualifies as independent director according to the CMB's Communiqué Numbered II-17.1.

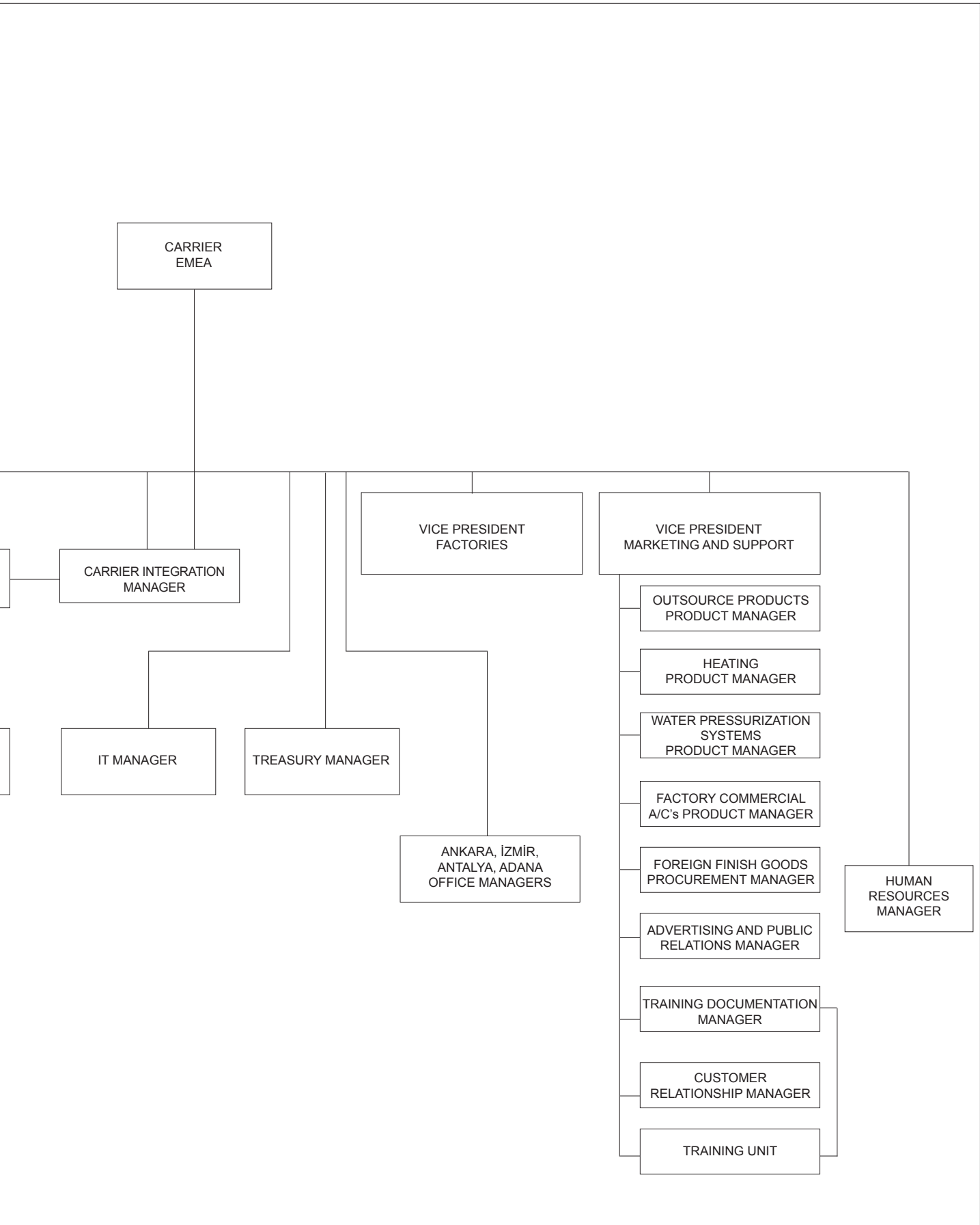
AGENDA OF THE ANNUAL GENERAL ASSEMBLY MEETING

1. Opening and moment of silence.
2. Deliberations and decision on the election of the Presiding Committee.
3. Deliberations and decision to authorize the Presiding Committee to sign the minutes of the General Assembly Meeting.
4. Deliberations and decisions on confirming the full membership of the Board Member nominated within the term according to article 363 of the Turkish Commercial Code.
5. Reading and deliberation of the Annual Report of the Board of Directors, Auditor's Report and Independent Auditor's Report for the year 2017.
6. Reading, discussion and approval of the Statements of Balance Sheet and Income Statement of 2017.
7. Resolution for the acquittal of the Members of the Board of Directors for the activities in year 2017.
8. Presenting information on the guarantees, pledges and mortgages lodged by the company in favor of third parties.
9. Deliberations and resolution on the proposal of the Board of Directors for the profit distribution policy of the company.
10. Deliberations and decisions on the election of the Board of Directors and determination of the salaries and terms of office of the members.
11. Deliberations and resolution regarding vesting the powers set out in articles 395 and 396 of the Turkish Commercial Code to the members of the Board of Directors.
12. Presenting information to General Assembly on procedures indicated in articles 1.3.6 of the "Corporate Governance Principles" in the annex of the Communiqué Numbered II-17.1 of the Capital Market Board.
13. Deliberations and resolution regarding the approval of a contract draft and the signing of the contract for the auditing of the company's accounts for the year 2018 by an Independent Auditing Company selected by the Board of Directors in accordance with the Turkish Commercial Code and the Capital Markets Regulations.

Board of Directors

GENERAL ORGANIZATION





BOARD OF DIRECTORS' ANNUAL REPORT

Distinguished Shareholders,

We hereby present the Annual Statement of Financial Position, Statement of Comprehensive Income and other financial statements which reflect the results of our company's activities in 2017 to your evaluation and criticisms.

- 1) This Annual Report covers the period between 01.01.2017 - 31.12.2017.
- 2) The terms of office of the members and auditors of the Board of Directors for the year 2017 are given in the table on page 4.

The financial statements which show the operational results obtained by Alarko Carrier Sanayi ve Ticaret A.Ş. in 2017 were audited independently by BDO Denet Bağımsız Denetim ve Danışmanlık A.Ş. (Member of BDO International Network)

- 3) The Board has convened 13 times in the year mostly by way of correspondence as the foreign Board members reside abroad. All members have attended to the meetings. Decisions of the Board of Directors were taken unanimously. Therefore, there is no record of dissenting votes.
- 4) The company's registered capital ceiling in 2017 was TL 10.800.000.
- 5) The issued capital of our Company is TL 10.800.000. Profit before tax of the Company for the period 2017 is TL 62.589.591
- 6) Rate of attendance to the Ordinary General Assembly Meeting of our Company held on 23.03.2017 was 85,33%. Our shareholders holding more than 10% of the Company's capital are Alarko Holding A.Ş. (42,028984%) and Carrier HVACR Investments B.V. (42,028984%).

In the 2017 account period there has been no difference in capital and shareholdership structure.

In the last three years of activity, a cash dividend of 150% was paid in 2014, a cash dividend of 412% was paid in 2015 and a cash dividend of 300,60% was paid in 2016. The proposal for the distribution of the profits for 2017 presented to the General Assembly by the Board of Directors for approval is attached on page 23. The value of our Company's share certificate of TL 1 nominal value quoted at the İstanbul Stock Exchange (Borsa İstanbul) is TL 61,80 as of the issuing date of this report.

- 7) Our company has made no donations as of 2017.
- 8) Our Company has no affiliates as of 31.12.2017.
- 9) Information on the guarantees, pledges and mortgages lodged by our company in favor of third parties as of 31.12.2017 is given in footnote 14 of the financial statements.
- 10) There are no important lawsuits brought against the Company which could impinge on its financial situation or activities as of 31.12.2017.
- 11) Shareholders who control the management, members of the Board of Directors, top executives and their spouses and blood and in-law relatives up to and including second kin have not executed any transaction which may lead to conflict of interest with the Company or its affiliates. Members of the Board have no transactions of their own or on behalf of others that could be within the scope of the noncompetition covenant.
- 12) There were no related party transactions or transaction of importance to be presented to the approval of the independent members of the Board in 2017.

GENERAL INFORMATION REGARDING OUR ACTIVITIES

Our company has determined its main operating areas as heating, cooling, air conditioning and water pressurization and produces, sells and offers after sales services for these products.

As a natural consequence of our partnership with Carrier, one of the world's leading companies in its field, we maintained our domestic and international sales of air handling units and rooftop air conditioners produced with the Carrier technology and brand in 2017.

We are aiming to have one of the most sophisticated products in the market with our new generation rooftop air conditioners conforming to ErP 2021 and we are expecting to have a considerable increase in our market share.

We will continue to offer to the market the 39HQ with the Carrier brand in the upper segment in air handling units and the Alarko brand ALS series equipment procured as OEM in the domestic market mid-segment. We are proud of winning the award given every year to the company that has achieved the most exports for the fifth time in a row in 2017.

Our company, the first company in Turkey to own the most developed psychometric laboratory in 2009 with the testing laboratory set up for the rooftop air conditioners, will continue its innovative and leading position in the sector with the testing laboratory for the air handling units that will be put into use in 2018.

Procurement of Carrier brand chillers for the upper segment from various Carrier sources such as France, the Czech Republic, the USA and Japan will be maintained and close cooperation with these countries will continue through Representative and Product Management in order to get competitive prices. We aim at maintaining the success we have achieved in the sales of the centrifugal compressor chiller and cooling tower markets in large projects such as city hospitals in 2018 and also consolidate our market leadership in this area. Our innovative and leading position in the sector will be continued by offering to the market the new high-quality Carrier chillers where new generation refrigerants designed according to the Eco-Design criteria effectuated in Europe on 1 January 2018, and which are more efficient and have almost zero effect on global warming according to the European F-Gas Regulations, are used. Chillers sales of Alarko brand for the middle segment with equipment procured from Italy as OEM will continue.

We aim at maintaining the high sales amount we achieved in 2017 for the fan coil units with products that we procure as OEM from Carrier for the upper segment and the Alarko brand from Italy for the mid-segment in 2018.

Carrier heating products have been added to our portfolio in order to improve our existing potential in the heat pump market which is growing continuously. Carrier Heating Pumps to be sold via distributorship channels have an extensive range of products providing diverse solutions to various customer needs. In 2018, a more active position for Carrier-brand heating products is being planned through sales, after sales and distributor training and marketing activities to be conducted.

Development efforts for these products are continuing in accordance with feedback from end users and the results of market research.

The Seradens Superplus model offered to the market in 2016 is the first and only double condensing combi boiler of Turkey and has had a leading role in the promotion of our product range of combi boilers. Our condensing combi boiler series was extended with the addition of 24 kW models.

R&D activities for the Seradens Villa Model condensing room heaters with a capacity of 36 and 50 kW and featuring heating only that will be used with boilers to serve mainly villa customers and the new and modern Seraven conventional combi that will be produced mainly for exports started in 2017.

The product range of the wall-hung Aldens series condensing boilers with a capacity of 105, 130, and 150 kW produced in our Gebze plant will be extended further with the addition of 65 and 80 kW models.

The Wolf FGB-K model condensing boilers with a capacity of 28 and 35 kW that offered to the market in 2017 will be sold once the present CGB room heaters are stocked out.

Wolf MGK-2 model condensing boilers with a capacity of 800 and 1000 kW and with premix burners, whose business development works and later on sales started in 2017 became outstanding products for prestigious central heating projects when our competitors offered their customers self-condensing steel boilers with forced burners or conventional burners with added economizers as they do not have boilers with premix burners of these capacities.

We continue to contract manufacture and sell Alarko brand conventional and condensing boilers used in central heating as well as auxiliary equipment such as boilers, expansion tanks, apparatus, plate exchangers and valves to be used in such facilities. Sales of Techem brand heat flow meters and heat cost allocators and reading service given by Alarko is continuing.

Work on the project consisting of increasing the number of models in the OPTIMA Circulation Pumps, which we produce in accordance with the ECO Design regulations and communiqués and sell and which contain threaded connection, from 7 to 14 was maintained in 2017. A large part of the work is planned to be completed and the products to be offered to the market in 2018.

The targeted market share for 2017 has been attained in the 4" submersible pumps by expanding the product range and the new sales strategies applied. Product diversification was achieved by the addition of domestic type submersible pumps offered for individual use to our product range. We also plan to add new models to our product range in line with the requests and likes we received from our distribution channels. The project of importing submersible engines that was initiated to increase our competitiveness in the 6"-14" submersible pumps is completed. New motors have provided the necessary admissibility criteria at the end of the performance tests and their imports are planned.

The stainless steel In-line water booster project started in Commercial and Industrial Type water boosters have been completed to a great extent and plans are being made to launch the new models in the first quarter of 2018. Our works regarding the exportation of the water pressurization system products continued intensively in 2017 and the targets were realized.

Sales and marketing activities for the precision air-conditioners used by the Data Center and Telecommunications sector are ongoing. These products are represented within the framework of product management to support sales operations and develop relations with the companies. Marketing activities to increase our market share in an expanding market, to enhance brand recognition, and to actively compete with our competitors are continuing.

The product range was updated in our Carrier commercial split air conditioner models and level 4 was reached by increasing the SCOP value. We aim at meeting customer expectations with more efficient and developed individual and central control possibilities.

In Toshiba VRF systems, in addition to the Mini SMMS-e series offered to the market in 2016, 4 HP and 5 HP single-fan models were also offered to the market. We aim at reaching a stronger position in especially the expanding Mini VRF market with new models produced with the quality and cutting-edge technology of Toshiba.

We are continuing to increase annually our share in the rapidly growing air-to-water heat pump market of Turkey. While comfort and top-level efficiency are offered to the final customer with Toshiba Estia heat pumps at the same time, we continue to extend our product range with the 4,5 kW models.

The air conditioner market has turned to R32 refrigerant in line with the F-Gas regulations that are applied in Europe and work is continued in Turkey. Projects on split air conditioners with R32 in our Toshiba split air conditioner product range have started and we aim to fulfilling the needs of the market rapidly.

A Notification Management project was initiated in 2016 in the Aegean Region in order to collect the failure, commissioning requests, etc. notifications from customers over a software, to direct them to the relevant unit, to follow up, to manage, to measure the performance of the process and to make the necessary improvements. We plan to apply this project all over Turkey in 2018.

The follow-up of our ACE activities is being conducted jointly with other companies in UTC in general. In accordance with the structural change at Carrier and UTC, from now on, all UTC companies in the region which includes our company, too, will act jointly in training, supervision and information sharing activities in ACE practices. Therefore, monthly teleconferences are held, and work is followed up closely in order to move together.

The ACE operating system certification inspection was executed on June 29, 2016 by BIS Middle East and Turkey ACE & Quality Director and BIS Middle East and Turkey ACE manager. At the end of the inspection, all our units qualified for the Silver Certificate. The next preliminary inspection is planned for the second quarter of 2018 and the necessary preparations are proceeding.

As all Alarko Carrier units except the regions attained the Silver level, the position and quality of our company has been confirmed among other Carrier factories. This has also further paved the way for manufacturing new products.

Work by the Process Development Unit of Information Technologies on upgrading the version of the SAP CRM program, simplification and improvement of the procedures was completed and put into use on 01 January 2017. Following this process, the second phase project for issues such as new requirements, usage of reporting and application on the Fiori mobile interface has been initiated. This project is to be complete in May 2018.

The first surveillance audit of the ISO 27001 Information Security Management System aiming at protecting the confidentiality, integrity and the accessibility of all written, verbal, visual or digital information within our company has been completed and the continuance of the certificate has been decided. We will continue to improve the Information Security Management System by working on the improvement areas determined by the audit and by increasing awareness, new digital projects and incorporating new processes.

Nowadays technology develops rapidly and its impact on business processes is felt intensively. A Digital Marketing Project comprising the renovation of our corporate web and e-commerce site in order to keep up with this change and become a part of this digital transformation was initiated in October 2017. To be adapted to being digitally connected at any time and at any

place has now become a prerequisite for competitiveness in many sectors of our economy. In addition to the sales offices and authorized dealers that are traditional contact points, digital marketing and e-commerce with its interface for mobile devices will start to be used as a tool to attract and maintain customers and to get new customers. The Digital Marketing project will be designed to cover all processes starting with the purchasing process that starts online and includes designation of the authorized service, completion of the installation and measurement of the satisfaction with the service in integration with the Alvima Accounting and After-Sales Services Notification Management Systems.

PRODUCTION ACTIVITIES

Main Production Facilities

Our main production facility located on a 60.000 m² site in the Gebze Organized Industrial Zone is a modern complex consisting of a 20.000 m² enclosed production area, a 2.000 m² office area, a 2.000 m² test and R&D building, as well as social and educational facilities. In the air conditioning area; air handling units, roof-mounted air-conditioners, in the heating area; conventional and condensing combi boilers, wall-type condensing boilers, fuel oil, heavy oil and gas-fired boilers, in the water pressurization area; submersible pumps and motors, circulation pumps and water boosters are manufactured at the main production facilities.

The ACE (Achieving Competitive Excellence) quality management system applied in all the UTC areas Carrier is affiliated with is applied at our production facilities. We cooperate with universities and TÜBİTAK in our Testing and R&D Departments to constantly develop our products. Moreover, serious development is also attained in our products with technology transfer from Carrier.

Panel Radiator Production Facilities

Our panel radiator production facility located on an 18.000 m² site at the Istanbul Dudullu Organized Industrial Zone. Production of Alarko brand products for the domestic market and Carrier and other OEM brands for exports is maintained in our Panel Radiator Production Facilities with a covered area of 12.000 m².

COMMERCIAL AND MARKETING ACTIVITIES

Our company has an extensive and strong sales and after sales network throughout Turkey. We have 262 distributors and 240 after sales units. Both the showrooms and training levels of our distributors and service organization have a special place in the sector. Taking into consideration the market trends, we have imported products in addition to products we manufacture in our product range. Our company takes a customer-oriented approach and offers its distributors product diversity as well as complete solutions to its customers. A separate distribution channel has been set up for Toshiba air-conditioners and solution partnership models for VRF are being maintained.

In addition to products manufactured at our own plants, we provide our customers product variety with products such as refrigeration groups, fan coil units, precision air conditioners, cooling towers, dry coolers, condensing units, automatic control equipment, humidifiers, cold room equipment, air conditioners for operating rooms, central heating system boilers as well as complementary products such as supplementary equipment and heat cost allocators procured from companies we cooperate with.

Building automation systems that convert complex buildings such as large business centers, hotels and hospitals into “intelligent buildings” provide us a considerable difference vis a vis our competitors as complete solutions. Moreover, our expertise also includes special solutions for air conditioning of hospital operating rooms and telecommunications. In the area of heating, we offer central combi boiler solutions, as well as combi radiator heating packs for individual

space heating units, thereby offering a variety of options for every customer profile. In the area of individual air conditioner units, we are offering our customers first class state-of-the art Toshiba and Carrier brand products in the rapidly expanding inverter category.

On the other hand, since 2002 our Totaline spare parts market has been providing spare parts and technical service equipment for the air conditioning and water pressurization products. Totaline with headquarters in Dudullu, Istanbul, has 5 markets, namely in İkitelli (Istanbul), Ankara, İzmir and Antalya.

“Maintenance Agreements,” a service begun for heating-cooling equipment and systems at large facilities, has shown rapid development. Another new area we have been working on is energy efficiency applications. We were one of the first companies in our sector to obtain the authority to conduct inspections and provide training in this field. We are also continuing to give allocation of heating cost service for buildings with central heating through our authorized services.

Training is given at our modern training centers in Gebze and Ankara and over the Internet through the Alarko Carrier Academy to our personnel and our dealers and service providers. Training includes subjects related to technical matters as well as to personal development.

Just as in previous years, in 2017, we were the company of choice in many highly prestigious projects in such areas as heating, cooling, ventilation, hygienic air conditioning and building automation.

Research & Development Activities

The ACE (Achieving Competitive Excellence) quality management system, which is common to all UTC-affiliated companies, including Carrier, is used at our Gebze production facilities. Collaboration with universities and TÜBİTAK is carried out at our Test and R&D Centers for the purpose of continually improving our products. Furthermore, major advances have been made in product development through Carrier technology transfers.

We submitted an application asking that our R&D Center be considered for the incentives and exemptions provided under Law no. 5746 on Supporting Research and Development Activities, published on 12 March 2008 in the Official Gazette. This application was reviewed by the Evaluation and Oversight Commission set up within the framework of the provisions of Article 14 of the Application and Oversight Directives pertaining to the Support of Research and Development Activities” based on this law and published in Official Gazette no. 26953 on 31 July 2008. It was decided at the commission’s meeting held on 27 April 2012 to issue the R&D Center Certificate to our company.

Information Regarding Social Responsibility Activities

Our Company is ISO 14001 and OHSAS 18001 certified. These certificates proves that we have reached targets beyond the legal responsibilities in environmental management and occupational health and safety. The said certificates are renewed after regular reviews.

No warnings or lawsuits were brought against the company for damage to the environment during this term or in previous years.

On the other hand, in 2005, we also obtained the SA 8000 Social Accountability Certificate for which only very few companies in the world are eligible and it was renewed in 2014.

We have the BS EN 16001 Energy Management Systems standards certificate that determines the systems and procedures needed for an efficient energy management to reduce our energy cost and greenhouse emissions.

Risk Management and Internal Control Mechanism

The Board organized a risk management and internal control mechanism. All risks likely to be encountered are periodically reviewed by the Auditing Committee and Early Detection of Risk Committee consisting of the company’s Board members. The Early Detection of Risk Committee took the decision to set up and develop an interior control mechanism and keep it up to date.

Pursuant to this decision, the Auditing Group has been appointed to oversee the setting up of the internal control mechanism and supervise its operability. The Auditing Group supervises the internal control mechanism at predetermined periods in accordance with the approved annual plans and reports its views on matters determined to top management.

Furthermore, the Auditing Committee and Early Detection of Risk Committee review related matters and advise the Board accordingly. The Auditing Committee and the Board determine the measures to be taken and instruction the managers of the company by way of the General Manager.

An Early Detection of Risk Committee consisting of three members has been established to determine risks likely to be encountered and to make recommendations to the Board in order to set up an effective risk management system and their operation principles have been approved by the Board. The Early Detection of Risk Committee convened 6 times in 2017 and the report of meeting minutes was presented to the Board.

ADDITIONAL INFORMATION REGARDING OUR ACTIVITIES

- 1) As there is no practice by the Company and the members of the Board of Directors against to the applicable laws and regulations, there is neither any administrative nor judicial litigation against the Company and the members of the Board of Directors.
- 2) No extraordinary general assembly was held during the year.
- 3) There have been no important legislation changes that could affect the company's activities within the term.
- 4) No case that could affect the rights of shareholders, creditors and other related persons and institutions has occurred as of the issuing date of this report.
- 5) Our Company does not possess any own share.
- 6) Objectives determined in previous terms have been attained and Board decisions have been carried out.
- 7) Internal audit was conducted 10 times and independent audit was conducted twice within the term and no adverse case was determined. Public auditing has been conducted whereas special auditing was not conducted in the year 2017.
- 8) Our company is not dominated directly or indirectly by a corporation. Therefore, it is not subject to the regulations of group of companies.
- 9) 18 special case announcements were made during the year. No additional explanation was requested.
- 10) As a result of developments in technology a modernization investment of TL 3.088.133 was made in 2017 in the equipment used and the production lines of the existing plants in order to renew the machinery and equipment that have completed their technical or economic lives and maximize the quality and efficiency of our products and services.

CHANGES MADE IN THE ARTICLES OF ASSOCIATION WITHIN THE TERM

There were no changes made in the Article of Association within the term.

PECUNIARY RIGHTS GIVEN TO BOARD MEMBERS AND TOP EXECUTIVES

No pecuniary benefits such as honorariums, fees, premiums, bonuses are given to members of the Board of Directors except the independent members of the Board of Directors. The gross total of pecuniary benefits given to Independent Board members and top executives was TL 1.708.673 (Gross) in 2017. There are no allowances, travel, accommodation and representation expenses and real and financial means, insurances and any similar collaterals given to the Members of the Board of Directors.

INFORMATION RELATED TO EMPLOYEES

Taking into consideration the economic balances of our country, we have tried to create a realistic balance between employees and employers and, within our possibilities, to bring solutions that will not weigh heavy upon our employees.

A total of 594 people consisting of 373 white collar and 221 blue collar employees have worked in our Company during the period 01.01.2017 - 31.12.2017. There were no disputes or labour movements during the period.

The collective labor agreement between our company and Türk Metal Sendikası (Turkish Metal Union) and MESS (Turkish Employers' Association of Metal Industries) and comprising the period between 01.09.2017- 31.08.2019 signed in 30.01.2018.

Our Company's liability for severance pay for the financial period is TL 18.378.837 and provision has been set aside for the whole sum.

All employees are treated equally in term of training and promotion and training plans and strategies effectuated to develop their knowledge, skill and experience. Employees are given training regularly every year.

Job descriptions are given to all employees. Performance and rewarding criteria are determined every year and executed following agreement with the employees. The necessary measuring and evaluation process is being done using the performance evaluation system and the results are taken into consideration during salary and career planning.

COMPANY'S CAPITAL AND PARTNERSHIP STRUCTURE

<u>Shareholders</u>	<u>Share Amount (TL)</u>	<u>Number of Shares and Votes</u>	<u>Share (%)</u>
Alarko Holding A.Ş.	4.539.130,24	453.913.024	42,03
Carrier HVACR Investments B.V.	4.539.130,24	453.913.024	42,03
Other	125.853,52	12.585.352	1,17
Free Float	1.595.886,00	15.958.860	14,77
Total	10.800.000,00	1.080.000.000	100,00

There were no changes in the capital and partnership structure within in the financial term of 2017.

PROFIT DISTRIBUTION POLICY

Our company has a profit distribution policy. This policy is stated in our Company's annual report, corporate governance principles compliance report and is announced to the public in the web site of the Company.

Our Company distributes profit within the frame of Capital Market Regulations, Turkish Commercial Code, Tax Legislation, other concerned regulations and the provisions stipulated under Main Articles of Association of our Company.

The amount of profit to be distributed is determined by taking into consideration the funds that may be needed in line with the investment policy of the company and other cash requirements.

Our company in principle, will distribute every year at least 20% of its distributable profit to the shareholders as dividend in cash. In case of extraordinary economic circumstances, the dividend may be distributed at a lower rate than the rate above mentioned, or may not be distributed at all. In such a case this is specified with a Board of Directors resolution and announced to the public with a disclosure.

The board of directors resolves the proposal related to profit distribution each year and presents it to the approval of the General Assembly.

In principal dividend distribution starts on May 31st in case the proposal of the Board of Directors related to profit distribution is approved by the General Assembly

The General Assembly may determine the date of distribution of profit provided that such date shall not be later than the last day of the current account period of which the general assembly is held.

Our company does not distribute dividend in advance during the year.

Our company has no shares granting privileges related to distribution of profit. Distribution of profit is carried out within legal period.

Our Company distributed TL 32.464.800 (gross) profit in year 2017.

PRIMARY RATIOS

According to the results of the activities of our Company in 2017, our gross profit ratio is 26,18 % The ratio of the period's profit to the turnover is 8,91% , the ratio of the operating profit to the turnover is 11,30%. The current ratio as of 31 December 2017 was 4,76, the liquidity ratio was 3,18, the cash ratio was 0,86, and the financial leverage ratio 0,23.

According to the results of the activities of our Company in 2016, our gross profit ratio is 24,65 % The ratio of the period's profit to the turnover is 7,82% , the ratio of the operating profit to the turnover is 9,60%. The current ratio as of 31 December 2016 was 4,77, the liquidity ratio was 3,41, the cash ratio was 1,27, and the financial leverage ratio 0,23.

Analysis of the basic ratios regarding the operating term of 2017 shows that our Company's networking capital is adequate, that it can pay all its short term liabilities in cash or with economic assets that can be turned to cash in a short period and that its operating activities are financed with its equities.

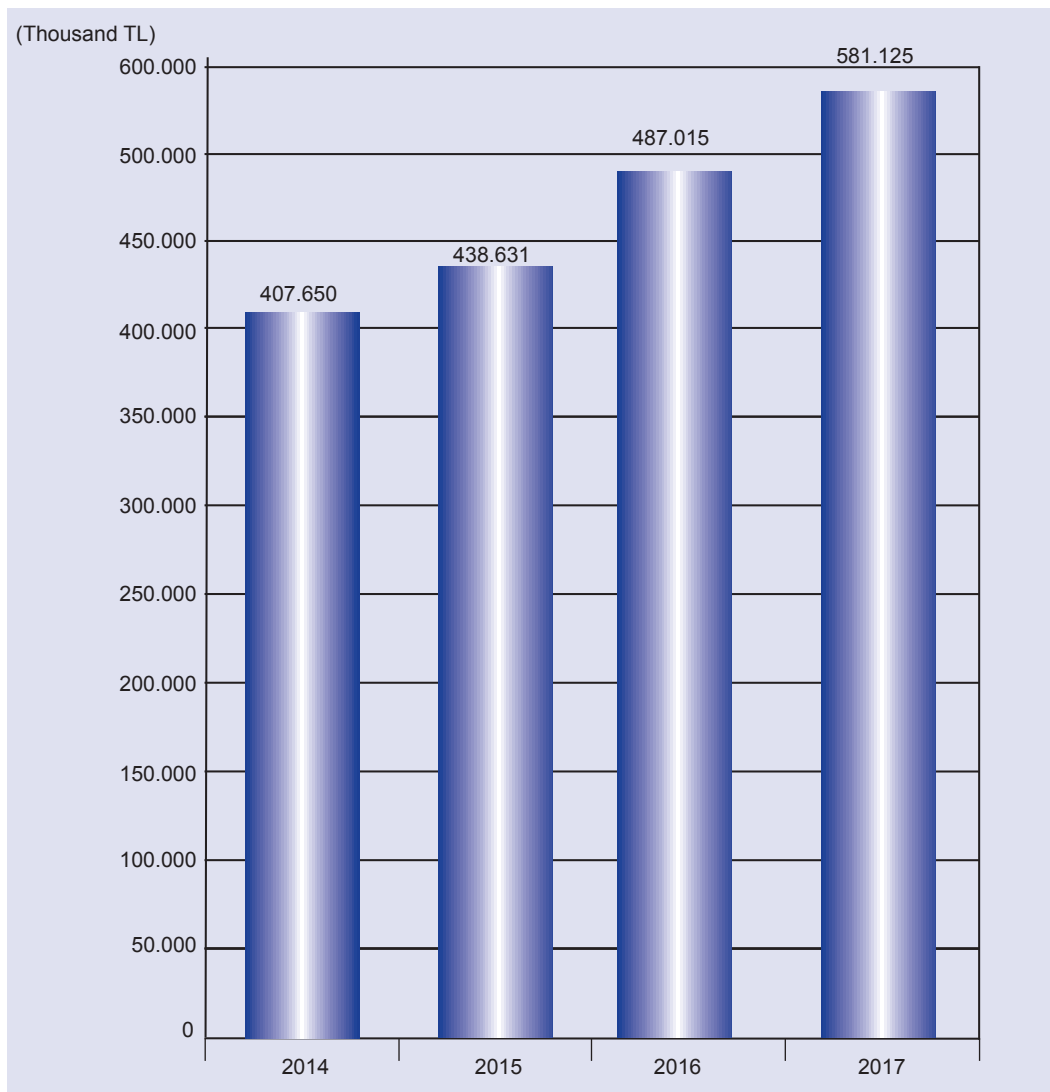
The equity of the Company is TL 362.410.723 and is of a level that can meet the company's debts.

The Company's financial structure is adequate to pursue its activities, hence there are no measure considered in this respect.

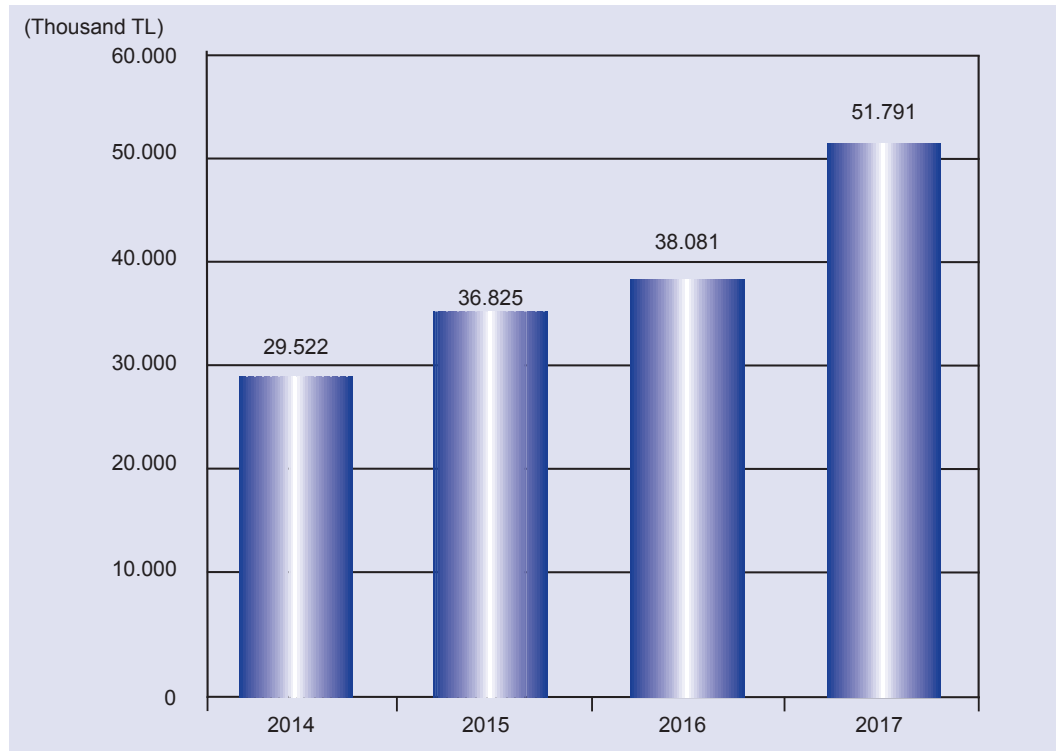
FINANCIAL HIGHLIGHTS

(Thousand TL)	2014	2015	2016	2017
Sales	407.650	438.631	487.015	581.125
Net Profit	29.522	36.825	38.081	51.791
Equity	329.917	350.584	343.309	362.411
Total Asset	401.143	431.949	444.402	472.242
Divident	16.200*	44.496*	32.464*	28.080*
Market Capital	378.540	361.800	408.672	651.240
Average Return on Equity	9%	11%	11%	14%
Issued Capital (Thousand TL)	10.800	10.800	10.800	10.800

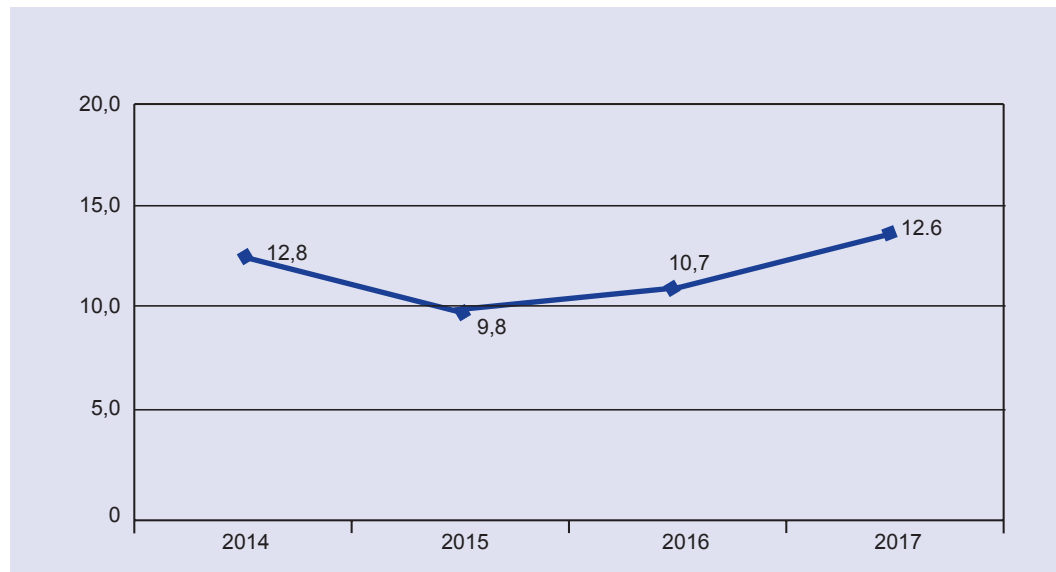
* Amount of gross dividends.

TREND OF SALES REVENUES

TREND OF NET PROFITS



PRICE / EARNINGS RATIO



INFORMATION REGARDING PRODUCTION AND SALES QUANTITIES

Production figures of the last two years.

	Air Handling (Unit)	Steel Panel Radiator (Unit)	Water Booster (Unit)
2017	1.534	168.201	775
2016	1.825	105.671	818
	Wall Hung Combi Boiler & Boiler (Unit)	Burner (Unit)	Circulator (Unit)
2017	18.412	904	6.638
2016	16.566	741	11.410
	Submersible Pump (Unit)	Roof-top Units (Unit)	
2017	2.435	98	
2016	3.319	121	

Sales figures of the last two years.

	Air Handling (Unit)	Fan Coil (Unit)	Chiller (Unit)
2017	1.782	13.673	179
2016	2.067	13.188	283
	Unit Heaters (Unit)	Wall Hung Combi Boiler & Boiler (Unit)	Burner (Unit)
2017	1.366	16.606	845
2016	806	16.977	779
	Circulator (Unit)	Submersible Pump (Unit)	Split Air Conditioner (Unit)
2017	25.779	14.358	35.291
2016	19.549	11.092	34.626
	Steel Panel Radiator (Unit)	Water Booster (Unit)	Roof-top Units (Unit)
2017	185.454	760	92
2016	120.301	818	122
	VRF (Unit)	Heat Pump (Unit)	
2017	2.334	1.333	
2016	2.840	1.554	

PROPOSAL FOR PROFIT DISTRIBUTION

- Pursuant to the Capital Market Legislation, Company's Article of Association and other applicable laws, TL 51.791.034 the net profit for the period after setting aside TL 10.798.557 for taxes from TL 62.589.591 representing the profit before tax as in the financial statements for the year 2017 presented to the approval of the General Assembly.

We propose;

- Not to set aside first order general legal reserves as the first ordered general legal reserves set aside in previous years has reached the legal ceiling.
- To distribute TL 28.080.000 (Gross) that corresponds to 54,22% of TL 51.791.034, the net distributable profit for the term, to shareholders as dividend in cash as no donation was made in 2017.
- Setting aside TL 2.754.000 out of the profit to be distributed as second order general legal reserve.
- Deducting the necessary amount of the dividend subject to income tax.
- To add the remaining sum to the extraordinary reserves.
- To start profit distribution on May 15, 2018.

Board of Directors

According to this and in accordance with the Capital Market Code, the Articles of the Association and other relevant laws, profit distribution is as follows;

Distribution of Period Profit

- Profit before Tax.....	TL 62.589.591
- Provision for Taxes.....	TL 10.798.557
- First Order General Legal Reserves (Has reached the ceiling).....	-
- Net Distributable Profit for the Period.....	TL 51.791.034
- Net Distributable Profit for the Period Including Donations.....	TL 51.791.034
- Dividends to Shareholders (Gross).....	TL 28.080.000
- Second Order General Legal Reserves.....	TL 2.754.000
- Balance to be Transferred to Extraordinary Reserves.....	TL 20.957.034
- Ratio of Dividends to Total Issued Capital.....	260%
- Ratio of Dividends to Distributable Profit for the Period Including Donations.....	54,22%

**REPORT ON COMPLIANCE
WITH CORPORATE
GOVERNANCE PRINCIPLES**

REPORT ON COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

PART I - STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

Our Company has shown the necessary rigor for the application of the Corporate Governance Principles published by the Capital Markets Board. All the principles held compulsory in the Corporate Governance Communiqué have been applied by our Company. Many of the Corporate Governance Principles that are not compulsory have been applied, those not applicable have been explained. Explanations regarding the subject are given in their relevant sections. The Corporate Governance Committee is continuing its work.

PART II – SHAREHOLDERS

2.1 Investor Relations Department

The duties of the Investor Relations Department providing communications between our company and investors are being administered by the executive of the Investor Relations Department formed within our company.

The executive of the Investor Relations Department is Bener Dağlıer, who possesses Capital Market Activities Advanced Level License. It has been announced to the public on the date 04.06.2014 that Bener Dağlıer has been charged as Investor Relations Department executive as of the 04.06.2014 dated resolution of the Board of Directors.

The executive of the Investor Relations Department reports to the General Manager Hilmi Önder Şahin. The report regarding the activities administered has been presented to the Board of Directors as of 22.01.2018

For the administration of the activities of the Investor Relations Department, Ömer Çelik has also been charged.

Contact Information:

Tel: 0212 310 33 00 – 0212 227 52 00 Pbx

Fax: 0212 260 35 04

E-mail address: bener.daglier@alarko.com.tr / omer.celik@alarko.com.tr

During the period, coordination of the Company's Corporate Governance Activities, fulfilling of the obligations arising from Capital Market Regulations and responding to the requests of investors have been effected. During the period, the requests of 65 investors have been responded.

2.2. Exercise of Right to Obtain Information by the Shareholders

Our Company is very particular about every shareholder's right to information. All information and disclosures that can affect access to shareholder's rights are updated and presented to shareholders under "Investor Relations" in our company's web-site. Questions of the shareholders commonly relate to investments, turnover, capital increase and dividend payments of the Company. Questions and answers given were communicated to the Board of Directors.

The Company's Articles of Association contain no provision regarding appointment of an independent auditor. No request was made during the year for appointment of an independent auditor.

2.3. General Assembly Meetings

The annual Ordinary General Assembly meeting of the company was held at Company Headquarter in Muallim Naci Cad. No:69 Ortaköy Beşiktaş-İSTANBUL with a quorum of 85,33%. The meeting was attended by representatives of the media.

In addition to the methods dictated by the legislation, announcement of the Ordinary General Meeting is made at least 3 weeks prior to the meeting using all means of communications including electronic communications so as to ensure notifying as many shareholders as possible. Invitation to the meeting was made at the the Public Disclosure Platform (KAP), the web-site of the Company, the Turkish Trade Registry Gazette, and a newspaper with national circulation.

The media, stakeholders and the top and middle level executives of the Company have the right to attend the General Assembly on condition complying with internal guidelines regarding the operating principles and methods of the General Assembly holding the meeting and participation.

The annual report, auditors' report, financial statements, the meeting agenda and profit distribution proposal by the Board of Directors are presented to shareholders at the company's headquarters prior to the general assembly meeting. Moreover, this information can be found in the "Investor Relations" link of our Company's web-site. The profit distribution proposal is disclosed to the public on the Public Disclosure Platform (KAP) before the General Assembly.

At the general assembly meetings, the shareholders exercise their right to ask questions and such questions are duly answered. No proposal was made other than by the major shareholders.

The minutes of the Ordinary General Assembly are open to all shareholders at the company headquarters. Moreover, the minutes of the General Assembly and the List of Participants are disclosed to the public on the Public Disclosure Platform (KAP) and in the "Investor Relations" link in our company's web-site after the meeting.

Our company has made no donations during the term. In case of making a donation, shareholders are informed about the donations made and aid given as a separate agenda item in the general assembly.

2.4 Voting Rights and Minority Rights

Voting rights bear no concession. Minority shares are not represented at the management. No cumulative voting is applicable. There are no participation or affiliate companies that have mutual participation relations with our company.

2.5 Profit Share Rights

Our company has a profit distribution policy. This policy figures in our company's annual report, the report of compliance with Corporate Governance Principles and is announced to the public in the Company's web-site.

Our Company distributes profit within the frame of Capital Market Regulations, Turkish Commercial Code, Tax Legislation, other concerned regulations and the provisions stipulated under Main Articles of Association of the Company.

The amount of profit to be distributed is determined by taking into consideration the funds that may be needed in line with investment policy of the company and other cash needs of the company.

In principle, our company distributes every year at least 20% of its distributable profit to the shareholders as dividend in cash. In case of extraordinary economic circumstances, the dividend may be distributed at a lower rate than the rate above mentioned or may not be distributed at all. In such a case this is specified with a Board of Directors resolution and announced to the public with a disclosure.

The Board of Directors resolves the proposal related to profit distribution each year and presents it to the approval of the General Assembly.

In principal, dividend distribution starts on May 31st in case the proposal of the Board of Directors related to profit distribution is approved by the General Assembly. The General Assembly may determine the date of distribution of profit provided that such date shall not be later than the last day of the current account period of which the General Assembly is held.

Our company does not distribute dividend in during the year.

Our company has no shares granting privileges related to distribution of profit. Distribution of profit is carried out within legal period.

Our Company distributed TL 32.464.800 (gross) profit in year 2017.

2.6 Transfer of Shares

Restriction of transfer of shares is valid only for the two major Turkish and foreign shareholders of the company as per the agreement entered into by and between the said shareholders which is reflected in the company's articles of association. There is no such restriction for the portion of the shares publicly held.

PART III – PUBLIC INFORMATION AND TRANSPARENCY

3.1 Corporate Web-site and Its Content

Alarko Carrier Sanayi ve Ticaret A.Ş. has a web-site. The Company's web-site address is www.alarko-carrier.com.tr. Matters specified in the Corporate Governance Principles have been included in the web-site. Information in the web-site is also given in English for the benefit of international investors.

“Report on Compliance with Corporate Governance Principles of Capital Markets Board” which contains a number of links for the following headings may accessed from the “Investor Relations” link of the web-site.

The information listed in Part 2 of the Corporate Governance Principles can be accessed through the links in following article 3.1

LIST OF LINKS:

PART I - STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

PART II - SHAREHOLDERS

- 2.1 Investor Relations Department
- 2.2 Exercise of Right to Demand Information by the Shareholders
- 2.3 General Assembly Meetings
- 2.4 Voting Rights and Minority Rights
- 2.5 Profit Share Rights
- 2.6 Transfer of Shares

PART III - PUBLIC INFORMATION AND TRANSPARENCY

3.1 Corporate Web-site and Its Content

- Trade Register Information
- Recent partnership and management structure
- Detailed information on preference stocks
- Current text of Company's Articles of Association including date and issue number of Trade Register Gazettes where amendments thereto are published.
- Announcement of special cases
- Annual Reports
- Periodic Financial Reports
- Registration statements and public offering circulars
- Agendas of General Assembly Meetings
- Lists of Attendance and Minutes of General Assembly Meetings
- Specimen form for voting by proxy
- Specimen forms for compulsory information prepared in collection of share certificates or proxy by way of invitation
- Profit Distribution Policy
- Information Policy
- Remuneration Policy
- Working Principals and Members of Comitees
- Minutes of Board Meetings where important decisions are taken which may effect the value of Capital Market Instruments
- Frequently asked questions (demands for information, questions and denunciations to the Company and their answers.)

3.2 Annual Report

Part IV- OWNERS OF INTEREST

- 4.1 Informing Owners of Interest
- 4.2 Participation of Owners of Interest in Management
- 4.3 Human Resources Policy
- 4.4 Ethical Rules and Social Responsibility

PART V - BOARD OF DIRECTORS

- 5.1 Structure and Composition of the Board of Directors
- 5.2 Operational Principles of the Board of Directors
- 5.3 Number, Structure and Independence of Committees constituted in the Board of Directors
- 5.4 Risk management and Internal Control Mechanism

5.5 Strategic Objectives of the Company

5.6 Financial Rights

3.2. Annual Report

Information enumerated in the Corporate Governance Principles is given in the annual reports.

PART IV – OWNERS OF INTEREST

4.1. Informing Owners of Interest

Owners of interest of the Company are regularly informed on matters of interest to them. Employees of the Company are informed through annual meetings regularly held. In addition, developments within the Company are announced on a continuous basis through the periodical “Bizden Bize” published quarterly.

Our dealers, service units and suppliers are informed by the authorized representatives of the company through the “Dealer”, “Service Unit”, and “Supplier” meetings held at least once every year. Further more, those people are regularly furnished with our annual activity reports.

Our company works on a customer focused basis and we measure customer satisfaction regularly. Our dealers, services and employees are given technical and social training regularly to ensure increasing customer satisfaction.

Our call centers number 444 01 28 that can be reached from all over Turkey give information, directs and brings solutions to customer request everyday between 08:00 am – 07:00 pm. Moreover, at least 400 customers are called every month from this center to a client survey. Data obtained by this survey are evaluated and service quality is constantly improved. On the other hand, customer satisfaction is discussed at meetings with our dealers and services and solutions are developed.

On the other hand, a comprehensive information effort is carried out through our web site, e-bulletins, technical publications and books. Stakeowners have the possibility of communicating operations contradictory to the company’s rules and inappropriate from an ethical point of view to the Corporate Management Committee or the Auditing Committee through the Investor Relations Department.

4.2 Participation of Owners of Interest in Management

No particular model has been developed regarding participation of owners of interest in the Company’s management. Rights of owners of interest are protected by virtue of applicable legislation.

4.3 Human Resources Policy

Human resources policy of the company is defined in the manual “Our Policy” issued annually and announced to the employees in annual meetings. Recruitment criteria, which should be strictly complied with by the staff in charge of recruitment, are defined in writing. The physiological, psychological and intellectual characteristics required by each job are taken into consideration in the recruitment process. These characteristics are measured and evaluated by a written test. Following the initial evaluation by the human resources department, the candidate is interviewed by the manager of the particular unit to employ him/her.

All employees are treated fairly and equally in terms of training and promotion opportunities, training plans and policies aiming at improving the knowledge, skills and experience of the employees are developed. The employees receive training regularly every year. Job descriptions are developed for every position. Performance and reward criteria are determined on a yearly basis and are then implemented upon agreement with the employees. The performance and evaluation system used in measuring and evaluating individual performance is taken into account at wage and career planning.

An independent foreign company is engaged to conduct an "Employee Satisfaction" inquiry once every two years and necessary adjustments are made according to the results obtained from such inquiries. On the other hand, a certain number of personnel are granted "Golden Badge" as a reward of their outstanding performance. And employees winning the "Invention Prize" competition are also awarded. Thus, the creative personnel are motivated. A safe working environment is provided to the personnel and it is improved continuously.

4.4 Ethical Rules and Social Responsibility

Rules of ethics approved by the Company's Board of Directors, agreed by all Alarko Carrier San. ve Tic. A.Ş. personnel and managers and defined in the Alarko Group of Companies Philosophy are summarized here below.

These rules are integrated to the policies, objectives, procedures and principles of Alarko.

- Act honestly in all business activities towards the Government, Clients, Shareholders, Personnel, Partners and Sub- and By- industries,
- Protect the environment and maintain the inter-company social balance,
- Orient the customers without forcing and give priority to their needs,
- Maintain high-quality; try to supply the best at the lowest price even when the customers are satisfied and contented with what is given already,
- Achieve the profits deserved by the shareholders under the current conditions,
- Give priority to teamwork as a corporation performing systematically on the basis of pre-defined procedures; share profit, loss and success and failure.

Our policies are shaped by this philosophy, and this philosophy is affixed at easily visible points in various units of our Company and subsidiaries. In addition, all employees are informed through annual Policy Meetings and Our Policy Book. Our existing and newly recruited personnel are trained on this philosophy and related rules regularly.

Our philosophy including the rules of ethics is accessible via the intranet and our web site www.alarko-carrier.com.tr. All Alarko Carrier San. ve Tic. A.Ş. personnel are obliged to act in compliance with these rules. Rules of ethics are followed-up by the superiors of all employees in the hierarchical order. The management must be immediately notified of any act or behavior contrary to the rules of ethics.

Any contrary act or behavior noticed, notified or suspected by the Board of Auditors, General Manager or other managers are reviewed by the Board of Directors or instructed to be reviewed by the Board of Auditors to ensure compliance therewith. Disciplinary sanctions are applied to doers of actually proven contrary acts.

Our company holds ISO 14001 and OHSAS 18001 certificates. These confirm our company's achievement on environmental protection and the health and safety of our employees beyond the legal responsibility. The said certificates are renewed through continuous inspections.

There is no litigation or warning filed against our Company either during the current year or in the past for damages on the environment.

On the other hand, in 2005, our company was granted the SA 8000 Social Accountability Certificate held by very few companies in the World and it was renewed in 2014.

Our Company has the BS EN 16001 Energy Management System standard certification that determines the systems and procedures for effective energy management bases on lowering our energy costs and greenhouse gas emissions.

PART V – BOARD OF DIRECTORS

5.1 Structure and Composition of the Board of Directors

Board of Directors

Niv Garih	Chairman
Muriel Makharine Topazzini	Deputy Chairman
Ümit Nuri Yıldız	Member
Giorgio Elia	Member
Mehmet Dönmez	Member (Independent)
Hatice Figen Eren	Member (Independent)

Members of the Board of Directors have no executive powers in the Company's management. There are 2 independent members on the Board.

A Nomination Committee has not been constituted among the members of our company's Board of Directors. Hence, the Corporate Governance Committee takes the duty of the Nomination Committee in accordance with the Corporate Governance Communiqué of the Capital Market Board.

The Board of Directors was elected for a 2 year term at the Ordinary General Assembly held on 23.03.2017. The statements of independence were obtained from Independent Members of the Board of Directors and as of the related period of activity, no such case suppressing the independence has occurred.

The CV's of the members of the Board of Directors, their terms in office and their duties outside the company were publish in the previous parts of the Annual Report and the website of the Company. It has not been included here to avoid repetition.

Board members are in no way restricted in assuming positions in other organizations or entites other than the company.

General Manager

Hilmi Önder ŞAHİN

Şahin was born in Ayvalık in 1948 and graduated from the Mining Department of the Engineering Faculty of METU in 1970. In 1972, he completed his postgraduate studies at the same faculty. Şahin started to work as Instrumentation Engineer at

the Alarko Group of Companies in 1975. Later he worked as an executive in various companies of the Group. Şahin has been the General Manager of Alarko Carrier Industry and Trade Company since 1995 and he is also a member of the Board of Directors in various companies of the Group. Married with two children, Şahin speaks English.

5.2 Operational Principles of the Board of Directors

The Board of Directors convenes once every three months within the thirty (30) days following the end of the term and when the operations of the Board require a meeting. The chairman of the Board confers with the other members of the Board and the General Manager and determines the agenda of the Board meetings and sends it to all members 3 days prior to the meeting. Members make a point of attending every meeting and expressing their opinions. Participation at the Board meeting can be done by any technological means that allows remote access. The remarks of members who are unable to attend the meeting but report them to the Board in writing are presented to the other members. Each member of the Board has one vote. In Board meetings related to related parties operations, the member of the relevant Board does not have a voting right. The meeting and resolution quorum of the Board meeting is stated in the Articles of Association.

The Board convened 13 times during the term. Meetings are conducted mostly by way of correspondence as the foreign Board members reside abroad. All members have attended to the meetings.

Decisions of the Board of Directors were taken unanimously. Hence, there is no record of dissenting votes. No weighed voting right or negative veto right is granted to the Board members. There are no related party operations and operations of important character to be presented to the approval of the Independent Board members in 2017. No insurance has been taken for the losses that may be caused to the company due to the mistakes of the Members of Board of Directors during their office terms.

5.3 Number, Structure and Independence of Committees Constituted in the Board

New committees have been established and their operation principles have been determined as of the Corporate Governance Communiqué of Capital Market Board and the articles in Turkish Commercial Code.

Hence:

- A Corporate Governance Committee consisting of 3 members was established to develop corporate governance applications. Independent member Mehmet Dönmez was elected as chairman of the committee, independent member Hatice Figen Eren and Investor Relations Department Executive Bener Dağlier was elected as member of the Committee. The Corporate Governance Committee convened 3 times with the total number of members in 2017 and presented the Board a report regarding their activities.
- An Early Detection of Risk Committee consisting of 3 members was constituted to detect the risks that our Company could be faced with and to organize an effective risk management system. Independent member Hatice Figen Eren was elected Chairman and Independent member Mehmet Dönmez and member Ümit Nuri Yıldız

were elected as members of the Committee. The Early Detection of Risk Committee convened 6 times with the total number of members in 2017 and presented the Board a report regarding their activities.

- Independent member Mehmet Dönmez was elected Chairman of the Auditing Committee within the Board and Independent member Hatice Figen Eren was elected as member. The Auditing Committee convened 5 times with the total number of members in 2017 and presented the Board a report regarding their activities.

Information regarding the activity areas, operating principles and the members of the committees has been disclosed in the Public Disclosure Platform (KAP) and also in the web-site of our Company.

All of the committees consist of non-executive members.

As a result of the structuring of the Board, the number of Independent Board members is 2. Since the chairman of the committees constituted and all the members of the Auditing Committee have to be independent members, these members are active in more than one committee.

5.4 Risk Management and Internal Control Mechanism

A risk management and internal control mechanism is set by the Board of Directors. Managerial risks are reviewed periodically by the Auditing Committee constituted by the members of the Board and the Early Detection of Risk Committee. The Auditing Committee has decided to establish, audit and update an internal control mechanism and this duty is assigned to an Auditing Group. The Auditing Group inspects the internal control mechanism regularly against the approved annual audit plans and communicates its opinions and findings to top management.

The Auditing Committee, the Early Detection of Risk Committee and the Board of Directors determine the precautions to be taken and the General Manager is assigned to give the company executives the necessary instructions.

5.5 Strategic Objectives of the Company

The main vision of the company is to become one of the leading companies worldwide in supplying Heating, Cooling, Ventilating and Water Pressurizing products and rendering related services to international markets through the integrated efforts of its main partners, namely Alarko and Carrier.

The company's main mission is to follow up the developments in products and services supplied to international markets and convert such developments into economical, competitive, reliable products and services rapidly, and to satisfy the expectations of our customers, employees and shareholders.

Strategic objectives, which are presented to the Board of Directors for approval, are developed by the General Manager and Assistant General Managers. The achievement level of the approved objectives is communicated to the Board through monthly reports and evaluated at the Executive Committee meetings held bi-monthly.

5.6. Pecuniary Rights

No pecuniary benefits such as honorariums, fees, premiums, bonuses are given to members of the Board of Directors except the independent members. The gross total of pecuniary benefits given to Independent Board members and top executives was TL 1.708.673 in 2017.

Information regarding the remuneration principles of Members of the Board and top executives was given to the shareholders as a separate article at the general assembly and it is also disclosed to the public in the web-site and the Public Disclosure Platform (KAP).

There are no allowances, travel, accommodation and representation expenses and real and financial means, insurances and any similar collaterals given to the Members of the Board of Directors.

No money is lent to the company's Board members or managers including credit utilization or suretyship.

**INDEPENDENT AUDITORS'
REPORT AND
FINANCIAL STATEMENTS**

INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

To the Board of Directors of Alarko Carrier Sanayi ve Ticaret Anonim Şirketi

1) Opinion

We have audited the annual report of Alarko Carrier Sanayi ve Ticaret Anonim Şirketi (the "Company") for the accounting period 1 January-31 December 2017.

According to our opinion, financial information provided in the annual report of the board of directors and matters addressed by the Board of Directors about the position of the Company are presented fairly and consistent with the audited full set of financial statements and with the findings we obtained during our audit in all material respects.

2) Basis for Opinion

Our independent audit has been conducted in line with the independent audit standards as endorsed by Capital Markets Board and with the Independent Auditing Standards (IAS) which are part of Turkish Auditing Standards promulgated by the Public Oversight, Accounting and Auditing Standards Authority of Turkey (POA). Our responsibilities under these standards have been explained in detail in the section of our report titled Responsibilities of the Independent Auditor about Independent Audit of Annual Report. Pursuant to the Ethical Rules published by POA for the Independent Auditors ("Ethical Rules") and ethical provisions stipulated in the applicable legislation about independent audits, we declare that we are and we work independent of the Company. Ethical Rules and other responsibilities determined in the applicable legislation about ethical conduct have been complied with and duly fulfilled by us. We believe that independent audit evidence we have obtained during independent audit is sufficient and appropriate to provide a basis for our opinion.

3) Our Independent Auditor' Report on on Full Set of the Financial Statements

We have expressed an unqualified opinion about the full set of financial statements concerning the accounting period 1/1/2017-31/12/2017 in our audit report dated 28 February 2018.

4) Responsibility of the Board of Directors for the Annual Report

Company Management has the following responsibilities in connection with annual report pursuant to articles 514 and 516 of Turkish Commercial Code numbered 6102 ("TCC") and "Communiqué on Principles of Financial Reporting in Capital Markets" numbered II-14.1 ("Communiqué") as issued by the Capital Markets Board ("CMB") of Turkey:

- a) Preparing and submitting the annual report to the general assembly within the first three months following the balance sheet date.
- b) Preparing annual report to reflect operations of the Company in that year and its financial position accurately, completely, directly, fairly and honestly in all respects. In this report, financial position will be evaluated based on the financial statements. The report also points out development areas for the Company and potential risks affecting the Company. Evaluation made by the board of directors regarding these subjects is also presented in the report.
- c) Report further includes following details:
 - Events occurring in the Company after the accounting period and having special importance for the Company,
 - Research and development activities carried out by the Company,
 - Remuneration, fees, premiums, bonus and other financial benefits and allowance,

repayment of costs of travel, accommodation and representation, in-kind and cash allowances, insurance and similar securities provided to the members of the board of directors and members of the top management.

In preparing the annual report, board of directors takes into account those arrangements made under secondary legislation issued by the Ministry of Customs and Trade and other relevant authorities.

5) Responsibility of the Independent Auditor about Independent Audit of Annual Report

Pursuant to the provisions of TCC and the Communiqué, our purpose is to express an opinion on whether financial information provided in the annual report of the board of directors and matters addressed by the Board of Directors in this report are fairly presented and consistent with the Company's audited financial statements and with the findings we obtained during our independent audit and to issue a report based on this opinion.

Our independent audit has been conducted in line with IAS and independent audit standards as endorsed by the Capital Markets Board. These standards require compliance with the ethical provisions and the independent audit to be planned and performed to obtain reasonable assurance on whether financial information provided in the annual report of the board of directors and matters addressed by the Board of Directors in this report are fairly presented and consistent with the Company's audited financial statements and with the findings we obtained during our audit.

Auditor who conducted and finalized this independent audit is Taceddin Yazar.

Istanbul,
28 February 2018

BDO Denet Bağımsız Denetim
ve Danışmanlık A.Ş.
Member, BDO International Network



Taceddin Yazar
Partner

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of;
Alarko Carrier Sanayi ve Ticaret Anonim Şirketi

A. Audit of the Financial Statements

1. Opinion

We have audited the accompanying financial statements of Alarko Carrier Sanayi ve Ticaret Anonim Şirketi (the "Company"), which comprise the statements of financial position as at 31 December 2017 and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements and a summary of significant accounting policies and financial statement notes.

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

2. Basis for Opinion

We conducted our audit in accordance with standards on auditing issued by the Capital Markets Board of Turkey and the Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics published by the Public Oversight Accounting and Auditing Standards Authority. We have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Key Audit Matters

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

Key Audit Matters

Revenue Recognition

Under the the periodicity principle, it is important to enter the sale data into the correct accounting periods.

Revenue from the sale of goods is recognized when all the following conditions are gratified:

- The significant risks and the ownership of the goods are transferred to the buyer,
- The Company refrains the managerial control over the goods and the effective control over the goods sold,
- The revenue can be measured reasonably,
- It is probable that the economic benefits related to transaction will flow to the entity,
- The costs incurred or will be incurred in conjunction with the transaction can be measured reliably.

The Company has goods invoiced and sold which were not transferred to the buyer the significant risks and rewards of ownership of the goods.

Explanations on the Company's accounting policies and amounts related to revenue are disclosed in Note 2.3.17 and Note 17.

How The Matter is Handled

During our audit, the following audit procedures were applied to revenue recognition;

- The Company's relevant process for the revenue was reviewed and sales and delivery processes were analyzed.
- The terms of shipment were examined and the timing of revenue recognition to the financial statement for different shipment arrangements was assessed.
- The substantive procedures have been used to control whether the sales invoiced are realized according to the accounting policy applied.
- We obtained confirmation letters from third parties.
- Sales returns occurred after the period end were examined and the substantive procedures were applied to test whether the revenues were appropriately recorded during the year.
- The adequacy of disclosures related to revenue is situated in Note 2.3.17 and Note 17 has been assessed within the scope of TAS.

Inventories

There is impairment risk for inventories. Calculation of provision for inventory impairment includes management estimates and assumptions.

In the calculation of decrease in value of inventories, data relating to listed prices of the inventories after discount and inventory retaining periods and physical condition of the inventories will be evaluated in respect to the inventories whose sale price cannot be ascertained by taking the opinion of technical personnel.

In those cases when projected net realizable value remains the cost, a provision will be set aside for the decrease in value of inventories.

Explanations on the Company's accounting policies and amounts related to inventories are disclosed in Note 2.3.3 and Note 8.

During our audit, the following audit procedures were applied to inventories;

- Impairment policy of the inventories was discussed with Company management.
- Inventory turnover compared to the previous year.
- We participated the inventory counting realized by the group as observers and we performed stocktaking for inventories which was identified with the sampling method. We controlled inactive and obsolete inventories during the stocktaking process that we have participated. The amounts included in the net realizable value calculation have been tested by sampling method.
- The adequacy of disclosures related to revenue is situated in Note 2.3.3 and Note 8 has been assessed within the scope of TAS.

4. Other Matter

The Company's financial statements for the accounting period 1 January – 31 December 2016 were audited by another independent auditor who expressed an unqualified opinion under the report dated 23 February 2017.

5. Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements

in accordance with TAS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

6. Auditor's Responsibilities for the Audit of the Financial Statements

In independent audit, the responsibilities of us as independent auditors are as follows:

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority 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 financial statements.

As part of an audit in accordance with the Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Company to express an opinion on the 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 provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence. We also 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 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 declared in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

B. Reports on Independent Auditor's Responsibilities Arising from Other Regulatory Requirements

- 1) Pursuant to Article 398 of the Turkish Commercial Code ("TCC") no. 6102, the auditor's report on early detection of risk system and the authorized committee is submitted to the Parent Company's Board of Directors on 28 February 2018.
- 2) Pursuant to subparagraph 4, Article 402 of "TCC", no significant matter has come to our attention that causes us to believe that the Parent Company's bookkeeping activities for the period 1 January – 31 December 2017 is not in compliance with the code and provisions of the Parent Company's articles of association in relation to financial reporting.
- 3) Pursuant to subparagraph 4, Article 402 of "TCC", the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

İstanbul,
28 February 2018

BDO Denet Bağımsız Denetim ve
Danışmanlık A.Ş.
Member, BDO International Network



Taceddin YAZAR
Partner

ALARKO CARRIER SANAYİ VE TİCARET ANONİM ŞİRKETİ
AUDITED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2017 (TL)

		Current Period Audited	Prior Period Audited
ASSETS	Notes	31 December 2017	31 December 2016
CURRENT ASSETS			
Cash And Cash Equivalents	4	77.615.756	106.974.302
Trade Receivables		207.943.822	179.318.970
- Trade Receivables From Related Parties	6,25	16.841.518	15.080.060
- Trade Receivables From Third Parties	6	191.102.304	164.238.910
Other Receivables		199.940	172.165
- Other Receivables From Related Parties		-	-
- Other Receivables From Third Parties	7	199.940	172.165
Derivative Financial Instruments	9	335.405	-
Inventories	8	111.105.886	98.218.077
Prepaid Expenses	10	31.073.288	11.694.332
Other Current Assets	15	539.039	4.532.095
Sub Total		428.813.136	400.909.941
Assets Held For Sale	22	981.789	785.022
Total Current Assets		429.794.925	401.694.963
NON-CURRENT ASSETS			
Trade Receivables		102.051	155.978
- Trade Receivables From Related Parties		-	-
- Trade Receivables From Third Parties	6	102.051	155.978
Other Receivables		3.254	3.254
- Other Receivables From Related Parties		-	-
- Other Receivables From Third Parties	7	3.254	3.254
Tangible Assets	11	28.694.312	31.496.012
Intangible Assets		1.603.701	1.308.222
- Other Intangible Assets	12	1.603.701	1.308.222
Prepaid Expenses	10	149.783	148.812
Deferred Tax Assets	23	11.894.268	9.594.291
Other Non-Current Assets		7	7
Total Non-Current Assets		42.447.376	42.706.576
TOTAL ASSETS		472.242.301	444.401.539

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

		Current Period Audited	Prior Period Audited
LIABILITIES	Notes	31 December 2017	31 December 2016
CURRENT LIABILITIES			
Trade Payables		53.059.262	35.480.863
- Trade Payables to Related Parties	6,25	20.080.349	11.640.512
- Trade Payables to Third Parties	6	32.978.913	23.840.351
Employee Benefits Liabilities	14	3.018.091	3.147.315
Other Payables		2.488.963	19.333.566
- Other Payables to Related Parties	7,25	-	18.907.368
- Other Payables to Third Parties	7	2.488.963	426.198
Derivative Financial Instruments	9	-	24.812
Deferred Income	10	20.393.423	16.553.716
Current Income Tax Liabilities	23	4.890.590	4.422.339
Short Term Provisions		6.081.092	5.007.030
- Short Term Provisions For Employee Benefits	14	1.028.631	-
- Other Short Term Provisions	14	5.052.461	5.007.030
Other Current Liabilities	15	376.321	222.692
Total Current Liabilities		90.307.742	84.192.333
NON-CURRENT LIABILITIES			
Other Payables		630.357	503.981
- Other Payables to Related Parties		-	-
- Other Payables to Third Parties	7	630.357	503.981
Deferred Income	10	228.408	259.662
Long Term Provisions		18.665.071	16.136.864
- Provision for Employee Termination Benefits	14	18.665.071	16.136.864
Total Non - Current Liabilities		19.523.836	16.900.507
EQUITY			
Paid in Capital	16	10.800.000	10.800.000
Capital Adjustment Differences	16	25.665.050	25.665.050
Other Comprehensive Income Not to Be			
Reclassified to Profit or Loss		(1.540.677)	(1.316.467)
- Remeasuring Gains /(Losses) From Defined Benefit Plans		(1.540.677)	(1.316.467)
Restricted Reserves	16	15.628.843	12.436.363
Retained Earnings and Accumulated Losses	16	260.066.473	257.642.700
Net Profit / (Loss) for the Period		51.791.034	38.081.053
Total Equity		362.410.723	343.308.699
TOTAL LIABILITIES AND EQUITY		472.242.301	444.401.539

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

ALARKO CARRIER SANAYİ VE TİCARET A.Ş.
AUDITED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME FOR THE YEAR ENDED 31 DECEMBER 2017 (TL)

		Current Period Audited	Prior Period Audited
	Notes	1 January - 31 December 2017	1 January - 31 December 2016
PROFIT OR LOSS			
Sales	17	581.125.221	487.014.520
Cost of Sales (-)	17	(428.965.004)	(366.973.974)
GROSS PROFIT		152.160.217	120.040.546
General Administration Expenses (-)	18	(25.337.214)	(22.325.166)
Marketing Expenses (-)	18	(77.175.811)	(71.085.121)
Research and Development Expenses (-)	18	(7.916.677)	(6.986.056)
Other Operating Income	20	43.728.968	42.337.449
Other Operating Expenses (-)	20	(19.758.020)	(15.237.071)
OPERATING PROFIT		65.701.463	46.744.581
Income From Investing Activities		1.283	1.041
Expense From Investing Activities		(19.209)	(5.346)
OPERATING PROFIT BEFORE FINANCIAL			
INCOME / (EXPENSES)		65.683.537	46.740.276
Financial Expenses	21	(3.093.946)	(602.054)
PROFIT BEFORE TAX FROM CONTINUING			
OPERATIONS		62.589.591	46.138.222
Continued Operations Tax (Expense) / Income		(10.798.557)	(8.057.169)
Tax (Expense) / Income For The Year	23	(13.042.481)	(8.907.501)
Deferred Tax Income / (Expense)	23	2.243.924	850.332
PROFIT FOR THE PERIOD FROM CONTINUING			
OPERATIONS		51.791.034	38.081.053
NET PROFIT FOR THE PERIOD		51.791.034	38.081.053
Other Comprehensive Income:			
Income And Expense Items Not To Be			
Reclassified In Profit Or Loss			
Remeasuring Gains / (Losses) From Defined Benefit Plans		(280.263)	(1.075.358)
Deferred Tax Income / (Expense)	23	56.053	215.072
Other Comprehensive Income / (Expense)		(224.210)	(860.286)
Total Comprehensive Income		51.566.824	37.220.767
Earnings Per Share			
Earnings Per Share From Continuing Operations	24	4,795	3,526

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

ALARKO CARRIER SANAYİ VE TİCARET A.Ş.			
AUDITED STATEMENT OF CASH FLOWS			
FOR THE YEAR ENDED 31 DECEMBER 2017 (TL)			
		Current Period Audited	Prior Period Audited
	Notes	1 January - 31 December 2017	1 January - 31 December 2016
A. CASH FLOWS ARISING FROM OPERATING ACTIVITIES		(26.730.009)	(9.637.260)
Profit for the Period		51.791.034	38.081.053
Adjustments Regarding Net Profit Reconciliation for the Period:		20.034.376	13.674.845
Depreciation and amortization	11,12	4.866.109	4.747.379
Provision / reversal for decrease in value of assets	6,8	5.385.355	3.484.044
Provision adjustments	14	4.777.392	3.859.657
Interest income / (expense) adjustments	20	(6.649.708)	(7.569.536)
Fair value gain / (loss) adjustments	9,20	838.745	1.091.827
Gain / loss on sales of fixed Assets		17.926	4.305
Adjustments regarding Tax income/(expense)		10.798.557	8.057.169
Changes in Working Capital		(60.254.883)	(35.555.747)
(Increase) / Decrease in trade receivables	6,25	(35.748.398)	(27.640.084)
(Increase) / Decrease in other receivables		(27.775)	46.130
(Increase) / Decrease in inventories	8	(14.945.794)	(12.910.865)
Increase / (Decrease) in trade payables	6,25	20.229.540	(1.677.166)
Increase / (Decrease) in other payables		(16.847.451)	1.180.050
Increase / (Decrease) other changes in working capital		(12.915.005)	5.446.188
Cash flows provided from operating activities		11.570.527	16.200.151
Dividends paid		(32.464.800)	(25.794.784)
Tax payments		(12.485.444)	(7.612.163)
Interest Received	20	6.649.708	7.569.536
B. CASH FLOWS FROM INVESTING ACTIVITIES		(2.628.537)	(2.525.442)
Cash inflows from sales of intangible and tangible assets		656.363	11.383
Cash outflows from purchases of tangible and intangible assets	11,12	(3.088.133)	(2.814.184)
Cash inflows from sales of fixed assets held for sale	22	-	277.359
Cash outflows from purchases of fixed assets held for sale	22	(196.767)	-
C. CASH FLOWS FROM FINANCING ACTIVITIES		-	-
Net Increase in Cash and Cash Equivalents		(29.358.546)	(12.162.702)
Cash and Cash Equivalents at the Beginning of the Period	4	106.974.302	119.137.004
Cash and Cash Equivalents at the End of the Period	4	77.615.756	106.974.302

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

ALARKO CARRIER SANAYİ VE TİCARET A.Ş.
AUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017 (TL)

	Notes	Paid in Capital	Capital Adjustment Differences	Revaluation and Measuring Gain/ (Loss) from Defined Benefit Plans	Restricted Profit Reserves	Retained Earnings/ (Accumulated Losses)	Net Profit/(Loss) for the period	Total
Balance as of 1 January 2016	16	10.800.000	25.665.050	(456.181)	8.040.762	269.708.903	36.825.398	350.583.932
Transfers		-	-	-	4.395.601	(1.096.928)	(3.298.673)	-
Total comprehensive income / (loss)		-	-	(860.286)	-	-	38.081.053	37.220.767
Profit (Loss) For The Period		-	-	-	-	-	38.081.053	38.081.053
Other Comprehensive Income / (Expense)		-	-	(860.286)	-	-	-	(860.286)
Dividend paid		-	-	-	-	(10.969.275)	(33.526.725)	(44.496.000)
Balance as of 31 December 2016		10.800.000	25.665.050	(1.316.467)	12.436.363	257.642.700	38.081.053	343.308.699
				Other Accumulated Comprehensive Income and Expenses not to be Reclassified in Profit or Loss				
				Revaluation and Measuring Gain/ (Loss) from Defined Benefit Plans				
				Capital Adjustment Differences				
				Paid in Capital				
				Retained Earnings/ (Accumulated Losses)				
				Restricted Profit Reserves				
				Net Profit/(Loss) for the period				
				Total				
Balance as of January 2017	16	10.800.000	25.665.050	(1.316.467)	12.436.363	257.642.700	38.081.053	343.308.699
Transfers		-	-	-	3.192.480	20.895.335	(24.087.815)	-
Total comprehensive income/ (loss)		-	-	(224.210)	-	-	51.791.034	51.566.824
Profit (Loss) For The Period		-	-	-	-	-	51.791.034	51.791.034
Other Comprehensive Income / (Expense)		-	-	(224.210)	-	-	-	(224.210)
Dividend paid		-	-	-	-	(18.471.562)	(13.993.238)	(32.464.800)
Balance as of 31 December 2017		10.800.000	25.665.050	(1.540.677)	15.628.843	260.066.473	51.791.034	362.410.723

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

**ALARKO CARRIER SANAYİ VE TİCARET A.Ş.
EXPLANATORY NOTES TO THE AUDITED FINANCIAL
STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are stated in full in Turkish Lira unless otherwise indicated)

1. Organization and Principal Activities of the Company

Alarko Carrier Sanayi ve Ticaret A.Ş. (the Company) is a joint stock company registered in İstanbul. The Company carries out its activities through the following operational divisions.

Operational Divisions	Principal Activities
Factory	Manufacturing of air handling units, roof-top, unit heaters, submersible pumps, gas fired combi boilers, oil fired domestic boiler, burners and panel radiators.
System Sales Branch	Marketing of factory manufactured air handling units, roof-top and fan-coil.
Retail Sales Branch	Marketing of factory's products and complementary imported products.
Totaline Branch and After Sales Services	Sales of spare parts, assembly material, maintenance and repair material.

Alarko Carrier Sanayi ve Ticaret A.Ş. shares have started to be traded at the Borsa Istanbul (BIST) as of 27 January 1992 and 14,77% of these shares are offered to public as of 31 December 2017. The address of the Company's central office is as follows:

Muallim Naci Cad. No: 69 Ortaköy/İSTANBUL/TURKEY

Shareholding structure as of 31 December 2017 and 2016 is as follows:

Name	Shareholding
Alarko Holding A.Ş.	42,03%
Carrier HVACR Investments B.V.	42,03%
Other (*)	<u>15,94%</u>
	<u>100,00 %</u>

* Represents total of shareholdings less than 10%.

The average number of personnel as of 31 December 2017 and 2016 by categories are as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
White collar employee	373	383
Blue collar employee	<u>221</u>	<u>223</u>
Total	<u>594</u>	<u>606</u>

2. Presentation of the Financial Statements

2.1. Basis of Presentation

2.1.1. Declaration of Conformity

The Company maintains its books of account and prepares its statutory financial statements in accordance with regulations on accounting standards promulgated by Turkish Commercial Code (“TCC”) and tax legislation.

The accompanying financial statements are prepared in accordance with the provisions of the “Communiqué Related to the Financial Reporting Principles at the Capital Markets” (Communiqué) Nr. II/14.1 of the Capital Markets Board (CMB) published in the Official Gazette dated 13 June 2013 Nr. 28676, taking as basis the Turkish Accounting Standards /Turkish Financial Reporting Standards and the related appendices and interpretations (TAS/IFRS) put into effect by the Public Oversight Accounting and Auditing Standards Authority (POA) as per the Article 5 of the Communiqué.

The accompanying financial statements are presented in accordance with the principles the application of which is required by the announcement published in the weekly bulletin dated 7 June 2013 Nr. 2013/19 of the CMB.

Approval of the Financial Statements

The Company's financial statements prepared as of 31 December 2017 have been approved by the Company Management on 28 February 2018 to be submitted to the Board of Directors.

Going Concern

The Company prepared financial statements in accordance with the going concern assumption.

Restatement of Financial Statements in High Inflation Economy

TAS 29 deals with the effects of inflation on financial statements and requires that financial statements prepared in the currency of a high inflation economy be stated in terms of the measuring unit current at the reporting date and that corresponding figures for previous periods be restated in the same terms. As per the resolution of the CMB dated 17 March 2005 Nr 11/367 the application of inflation adjustment of the financial statements has ended in 2005, hence the financial statements are restated at the purchasing value of the Turkish Lira as at 31 December 2004. The additions to non-monetary items subsequent to 1 January 2005 are stated at their nominal values.

2.1.2. Functional and reporting currency

The functional currency used by the Company is Turkish Lira (“TL”) and the accompanying financial statements and related notes are presented in TL.

2.1.3. Offsetting

Offsetting financial assets and liabilities can only be made under the conditions where the offsetting transaction is legally allowed and the company has an intention in this respect or where the acquisition of assets and fulfillment of liabilities are realized simultaneously.

2.1.4. Comparative Information and Adjustment of Prior Period Financial Statements

The Company's financial statements are prepared comparatively with the prior period in order to make financial position and performance evaluations. Similarly,

the statements of profit or loss and other comprehensive income, cash flows, and changes in equity for the period 1 January - 31 December 2017 and those for the period 1 January - 31 December 2016 and relevant notes are prepared comparatively. The reclassifications regarding prior period are as follows:

Losses on fixed asset sales amounting to TL 5.346 previously presented in the statement of profit and loss of the prior period under other operating expenses are reclassified under expenses from investing operations.

Gains on fixed asset sales amounting to TL 1.041 previously presented in the statement of profit and loss of the prior period under other operating income are reclassified under income from investing operations.

2.2 New and Revised Turkish Accounting / Financial Reporting Standards

In the current period, there are no standards or interpretations affecting the Company's financial performance, balances, presentation or disclosure. However, below are the standards presented, that are valid for the current period and have no impact on the financial statements of the Company and the standards and interpretations that are not yet effective and have not been early adopted by the Company.

a) Amendments to TAS affecting the amounts and footnotes reported in the financial statements

None.

b) New and revised standards effective from 1 January 2017

TFRS 15 Revenue from Contracts with customers

The standard which replaces existing TFRS guidance 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 goods and services in a contract and recognizing revenue over time. The new five-step model in TFRS 15 describes the requirements of recognition and measurement of revenue. Five-step model frameworks is as follow:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The new standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

TFRS 9 Financial Instruments

The new standard is effective for annual periods beginning on or after 1 January 2018. New TFRS 9 introduces revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from TAS 39. TFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

TAS 12 Income Taxes - 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. These amendments did not impact on the financial position or performance of the Company.

TAS 7 Statement of Cash Flows - Amendments

TAS 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. These amendments did not impact on the financial position or performance of the Company.

IFRS Interpretation 22 - Foreign Currency Transactions and Advance Consideration

The amendments 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. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

IFRS 2 Classification and Measurement of Share - based Payment Transactions - Amendments

IFRS 2 Share-Based Payment has been amended by POA 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 is in the process of assessing the impact of the standard on financial position or performance of the Company.

TAS 40 - Transfers of Investment Property

Amendments to TAS 40 - Transfers of Investment Property issued by POA 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 is in the process of assessing the impact of the standard on financial position or performance of the Company.

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. These amendments did not impact on the financial position or performance of the Company.

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

In December 2015, the POA postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted.

Annual Improvements - 2014-2016 Cycle

The POA has issued the below amendments to the standards in relation to "Annual Improvements - 2014-2016 Cycle". The amendments are effective as of 1 January 2018. Earlier application is permitted.

The Company does not expect significant impact on the financial position or performance related these amendments.

TFRS 1 "First Time Adoption of International Financial Reporting Standards"

TFRS 1 is amended to clarify that the deletion of short-term exemptions for first-time adopters related to disclosures for financial instruments, employee benefits and financial statements.

TFRS 12 "Disclosure of Interests in Other Entities"

The amendments clarify that the entity is not required to disclose summarized financial information for that subsidiary, joint venture or associate under the requirements of TFRS 12, when an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with TFRS 12.

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.

c) 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 financial statements after the new standards and interpretations are issued and become effective under TFRS.

IFRS 16 Leases

IASB published the new leasing standard on 13 January 2016. 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. This standard 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. 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 standard on financial position or performance of the Company.

IFRIC 23 - Uncertainty over Income Tax Treatments

The amendment is effective from annual periods beginning on or after 1 January 2019. On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS Interpretation Committee had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. 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. The Interpretation is effective from 1 January 2019 with earlier application is permitted. The Company is in the process of assessing the impact of the IFRIC 23 on financial position or performance of the Company.

Amendments to IFRS 9 - Prepayment features with negative compensation

On 12 October 2017, IASB has issued amendments to IFRS 9 to clarify that financial assets containing prepayment 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 IFRS 9. Under IFRS 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 Company is in the process of assessing the impact of the IFRS 9 on financial position or performance of the Company.

IFRS 17 - Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. IFRS 17 "Insurance Contracts" is effective for annual reporting periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which allows a wide range of applications. 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 will change the basis of insurance contracts and the accounting of all entities that issue investment contracts with voluntary participation features. IFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier. The Company does not expect significant impact on the financial position or performance related these amendments.

Annual Improvements - 2015-2017 Cycle

IASB issued Annual Improvements to IFRSs - 2015–2017 Cycle. The amendments are effective as of 1 January 2019 and earlier application is permitted. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

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 recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income or equity.

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 re-measures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not re-measured.

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.

2.3. Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of the accompanying financial statements are as follows:

2.3.1. Cash and Cash Equivalents

Cash and cash equivalents consist of cash balances on hand, cheques received matured at the period-end, cash at banks, liquid funds and bank deposits with maturities less than 3 months. Acquisition costs and accrued interests of cash and cash equivalents are stated together in a lump sum figure.

Cash is composed of Turkish Lira and foreign currency balances. Turkish Lira balances are stated at their face values. Bank deposits with maturities more than 3 months are stated as financial investments.

Bank accounts consist of demand and time deposits and related interest accrued. Turkish Lira deposit accounts are stated at their carrying values and foreign currency accounts are translated into Turkish Lira at the foreign exchange rate issued by the Central Bank at the reporting date.

Cheques received that exceeding maturity date of reporting period is shown in trade receivables and are subject to rediscount.

Fair Value

As the foreign currency cash and cash equivalents are translated into Turkish Lira at the foreign exchange rates of the reporting date, it is assumed that the fair values of these assets approximate their book values.

As the recorded values of cash, banks, cheques received and credit card receivables are converted into cash in very short terms, and there is no risk of impairment, their book values are assumed to approximate their fair values.

2.3.2. Trade Receivables and Provision for Decrease in Value

Trade receivables are financial assets created by the Company through selling goods and services directly to the customers.

Provision is made for doubtful receivables if there is clear evidence that the due receivables will not be collectible. The provisions are the difference between net book value of the amount and recoverable amount. Collectible amount is the discounted value of trade receivables, all cash flows including collections from guarantees by using original effective interest rate. Bad debts are written off when identified. If the provision decreases, the amount will be written as income in the current period.

The Company's credit risk is mainly comprise from trade receivables. Trade receivables are assessed by taking into consideration the guarantees received from the management of the Company, past experience and the current economic situation, and are shown net in the statement of financial position when appropriate provision for doubtful receivables is provided. The Company collects most of the receivables from domestic sales to Dealers through the "Direct Debit System" (DDS). Within this system which is also named as Direct Collection System; the contracted banks warrant the collection of the receivables within the limits granted to the dealers. Trade receivables are transferred by the contracted banks to the Company's bank accounts at the due dates. The company has a large number of customers, therefore there is no concentration risk on specific customer group.

Fair Value

Discounted trade receivables for which provisions for doubtful receivables are accrued are assumed to approximate the fair values of these assets.

2.3.3. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined by using the monthly moving weighted average cost method. Cost for the finished goods and semi-finished goods includes the raw material cost, direct labour, other direct expenses and related general production expenses and does not include financing costs. Net realizable value is the value obtained by deducting total of expected cost and expected cost and expected marketing and sales expenses from estimated sales price. Fixed production costs on the finished goods are distributed according to normal production capacity. The non-operating expenses incurred during the production interruption, except the factory's annual plan, are not associated with the finished goods and are accounted under the cost of goods sold in the period in which they are incurred. Also, impairment calculation is made for 5 year for the spare part and for 1 year for the all other inventories.

2.3.4. Assets Held for Sale

Assets are classified as assets held for sale when their book values are recovered not upon usage but upon a sales transaction, and the depreciation is discontinued. Assets held for sale are valued at the lower of their book values and the value computed through deducting the sales expenses from their fair values. In order to guarantee a good chance for sale, proper management staff must have developed

plans for the sale of the asset and initiated an active program to determine potential buyers and ensure consummation of this plan. Apart from that, the asset must be marketed actively based on a price consistent with its actual market value.

2.3.5. Tangible Assets and Depreciation

Date of first entry into assets of the tangible assets was taken into account in indexing of the same as of 31 December 2004 in order to edit their value according to purchasing power of Turkish Lira in the reporting period. Purchases made after 1 January 2005 were indicated with their nominal values.

The cost of a tangible asset includes the purchase price, import duties and non-refundable purchase taxes, and the costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating. Expenses incurred after the asset is started to be used, i.e., maintenance and repair expenditures are recognized in profit or loss in the period in which they are incurred. If the expenditures made increase an asset's economic usefulness in the future, they are added to the cost of the asset.

Tangible assets are depreciated at their cost values on straight line basis over their estimated useful lives stated below:

<u>Assets</u>	<u>Useful Lives</u>
Buildings	16-50 years
Land improvements	5 years
Machinery, plant and equipment	5-25 years
Motor Vehicles	5 years
Fixtures and furniture	5-16 years
Other Tangible Assets	4-5 years
Special Costs	5-10 years

If book value of a tangible assets is higher than its estimated recoverable amount, such book value must be deducted to the recoverable value by setting aside provisions for asset. Income and losses arising with the sale of fixed assets must be determined as a result of a comparison between their net book values and sales prices and included into the income or expenses from investing activities. Expenses incurred after the asset is started to be used, i.e., maintenance and repair expenditures are recognized in profit or loss in the period in which they are incurred. If the expenditures made increase an asset's economic usefulness in the future, they are added to the cost of the asset.

2.3.6. Intangible Assets and Amortization

Intangible assets are reflected to the financial statements according to their net value to be found by deducting accumulated amortization and permanent impairment, if any, from their corrected acquisition cost as presented by purchasing power of TL on 31 December 2004 in case of items acquired before 1 January 2005 and from their acquisition cost in case of items acquired after 1 January 2005. Intangible assets are amortized by straight-line method over an expected economic life between 3-15 years. The carrying values of these intangible assets are analyzed for impairment if and when the conditions change.

Intangible assets comprise computer usage rights.

2.3.7. Impairment of Assets

Company evaluates at every period end all assets, except biological assets, stock and deferred tax assets, for impairment. In case the book value of an asset exceeds

its recoverable value, a provision for impairment loss is made so as to bring the book value of the asset down to the level of its fair value and it is recorded as expense in the consolidated statements of profit or loss and other comprehensive income. On the other hand, the recoverable value of cash generating assets is the higher of their net sales price and the value in use. The value in use of the said assets is the present value of the future cash flows expected from continuous use and sale of these assets, discounted at a reasonable discounted rate. In the event that provisions made for impairment in the prior periods are no longer valid or higher than necessary, the excess amount is reversed and recognized in the statement of profit or loss and other comprehensive income.

However, the increase in the carrying value of the asset without goodwill due to reversal of impairment provision is recognized only if it does not exceed the value of the asset where there is no impairment provision made during the prior years. The loss in carrying value arising from revaluation of fixed assets is initially stated as a liability net of the revaluation fund in equity; and if there is a remaining balance left from the total value decrease, it is stated as expense in the consolidated profit or loss and other comprehensive income. The impairment provision related goodwill for previous periods does not reverse.

2.3.8. Borrowing Costs

For the assets taking a considerable time to be ready for the usage and sale, borrowing costs directly related to the purchasing, manufacturing or production are included in the borrowing cost till the related asset is made ready for the usage or sale.

2.3.9. Current and Deferred Income Taxes

Tax expense or income is the aggregate of current income tax and deferred taxes which are based on the gains and losses for the period. Income tax liability consists of tax liability which are calculated based on taxable income with the current tax rate as of financial position date.

The provisional article 10 which is added to the Corporate Tax Law in accordance with Law No. 7061 and published in 30261 numbered official gazette and dated December 5, 2017, corporation tax rate of 20% will be applied as 22% in 2018, 2019 and 2020 for all corporations. After 2021 corporation tax rate is likely to be reduced to 20% again.

At 31 December 2017 and 31 December 2016, the tax provisions has been assessed within the frame of the tax legislation.

Deferred income tax is determined, using liability method and tax rates (and laws) that have been enacted by the balance sheet date. Deferred income tax is provided in full, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets resulting from deductible temporary differences are recognized to the extent that is probable that future taxable profit will be available against which the deductible temporary difference can be utilized, while deferred income tax liabilities are recognized for all temporary differences. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow all part of the deferred tax asset to be utilized.

Tax assets and deferred tax liabilities can only be offset in the statement of financial position if the entity has the legal right to settle current tax amounts on a net basis and the deferred tax amounts are levied by the same taxing authority on the same entity or different entities that intend to realise the asset and settle the liability at the same time.

2.3.10. Provisions

Probable 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 Company are not included in the financial statements and are treated as contingent liabilities. A contingent asset is not recognized in the financial statements, but disclosed when an inflow of economic benefits is probable.

2.3.11. Employee Benefits

a) Defined Benefit Plan

The Company is required to pay termination indemnities to each employee who completes one year of service and whose employment is terminated upon causes that qualify the employee to receive termination indemnity. Provision for employment termination benefits is calculated based on the net present value of the amounts of obligations of all employees expected to arise in the future due to their retirement and reflected in the financial statements (Note 14). The Company determined the actuarial gain/loss related termination indemnity liability stated in the accompanying financial statements as per the recognition and valuation principles stated in "Employee Benefits" TAS 19.

b) Defined Contribution Plan

The company pays social security contributions to Social Security Institution as per regulations. There are no liabilities else in case all these contributions are paid. These are captured in staff expenses within the term that they are accrued.

(c) The Other Employee Benefits

Rights and obligations arising from the unused leave as defined provisions for long term employee benefits are accrued in the period in which they are entitled and if its effect is important it is discounted.

2.3.12. Research and Development Expenses

Research expenses are recorded as expense when realized. Project costs related to the development of new products or the testing and design of developed products can be considered as intangible asset in case of when the product or process is clearly defined and costs are separately identified and measured reliably, the commercial and technical feasibility of the product is demonstrated.

Other expenditures for research and development are charged against income in the period incurred. Expenditure which is charged against income at prior period, cannot be capitalized for current period.

2.3.13. Warranty Expenses

Warranty expenses are reflected to the financial statements on the basis of the calculation of the amounts estimated based on the expenses incurred in the previous period.

2.3.14. Financial Assets

Classification

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets as appropriate. Financial assets are classified based on the purpose of investment. The reclassifications of financial assets made at the date of purchase by management.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The maturity longer than 12 months as of balance sheet date is classified in non-current assets, the assets which has maturity no longer from 12 months as of balance sheet date recognized in current asset. Receivables are classified as trade and other receivables in the balance sheet.

Accounting and measurement

Financial assets that are regularly purchased and sold must be entered into the records as of the respective dates of purchase/sale. Such date will be the date on which the management made a promise to purchase/sell. Financial assets entered into the books by adding transaction cost to their fair value. Cash flow arising from the financial assets will be terminated once relevant rights of purchase cease or are transferred and the Company transfers all pertaining risks and proceeds, upon which such financial assets are removed from the books. Financial assets ready for sale will be accounted for based on their fair values in the following periods. Loans and receivables will be accounted for based on their discounted values determined by using effective interest rate. In the event of changes in the fair value of financial assets denominated in foreign currency and classified as ready to sell, exchange rate differences relating to the changes in the discounted value of the financial asset and to other changes in the book value of then financial asset will be analyzed. Exchange rate differences relating to monetary financial assets must be reflected to the statement of income and exchange rate differences relating to non-monetary financial assets must be reflected to the equity. Changes in the fair values of the monetary and non-monetary financial assets entered into the books as ready to sell must be reflected to the equity. When financial assets classified as ready to sell are sold or in the event of a value reduction, adjustments to the accumulated fair value indicated in the equity will be entered into the statement of income as income or loss arising from financial assets.

2.3.15. Derivative financial instruments

The Company uses derivative financial instruments such as forward contracts to hedge exposure to fluctuations in foreign exchange rates. As of 31 December 2017 and 2016 derivative financial instruments are recorded with their fair values and then recognized in profit and loss accounts in expiry date of the hedging instrument. The Company uses its year-end market rates and interest rates to calculate the market value of the foreign exchange forward contracts. In accordance with TAS 39 (Financial Instruments: Recognition and Measurement), they are defined as held for trading and classified in the account of current liabilities (financial liabilities) in the financial statements and the changes in their fair value are reflected on the income statement.

2.3.16. Fair Value of Financial Instruments

Fair value is the amount for 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. The

Company has determined the estimated fair values of its financial instruments by using existing market information and appropriate valuation methods. However, evaluating market information and estimating real values requires the ability to interpret and reason. Consequently, the estimates presented herein are not necessarily indicative of the Company's ability to derive value in a current market transaction.

The fair values of the financial statements are determined in accordance with the following methods and assumptions as follows:

Monetary Assets

Monetary assets for which fair value approximates carrying value are carried at cost in the financial statements and consist of cash and cash equivalents, their interest accruals and other financial assets and considered to approximate their respective carrying values due to their short-term nature and negligible credit losses. The carrying value of accounts receivable along with the related allowance for unearned income and uncollectibility are estimated to be their fair values.

Monetary Liabilities

Monetary liabilities for which fair value approximates carrying value including accounts payable, short-term bank borrowings and other monetary liabilities are considered approximate their respective carrying values due to their short-term nature.

2.3.17. Revenue Recognition**Revenue**

Once it becomes possible for the Company to determine relevant income amount and to economize the economic benefits arising from the relevant transaction, revenue will be entered into the books based on the fair value of the recovered or recoverable value and according to accrual principle. Net sales can be found by deducting returns from sales and sales discounts.

Revenue from the sale of goods is recognized when all the following conditions are gratified:

- The significant risks and the ownership of the goods are transferred to the buyer,
- The Company refrains the managerial control over the goods and the effective control over the goods sold,
- The revenue can be measured reasonably,
- It is probable that the economic benefits related to transaction will flow to the entity,
- The costs incurred or will be incurred in conjunction with the transaction can be measured reliably.

Service sales

When the revenue from services can be measured reliably, the revenue is recorded in accordance with its completion level. If the revenue cannot be measured reliably, revenues are recognized as much as the recoverable amount of expenses that are associated with these revenues.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts the estimated future cash receipts through the expected life of the financial asset to that assets net carrying amount.

Dividend income

Dividend income from investments is recognised when the shareholders rights to receive payment have been established.

Rent income

Rent income from investment properties is recognized on a straight-line basis over the term of the respective lease. The Company leased part of the building to the related party.

When there is significant amount of cost of financing included in the sales, the fair value is determined by discounting all probable future cash flows with the yield rate, which is embedded in the cost of financing. The differences between the fair value and the nominal value are recorded as interest income according to the accrual basis.

2.3.18. Earnings Per Share

Earnings per share is calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Enterprises in Turkey can increase their capital through distributing bonus shares to their shareholders proportionate to their shareholding from retained earnings and differences arising from inflation adjustment in shareholder's equity. These bonus shares are regarded as issued shares in calculating earnings/ (loss) per share. Hence, retroactive calculation is made to arrive at the weighted average number of shares in respect of the bonus shares.

2.3.19. Reporting of cash flow

Cash flows during the period are classified and reported by operating, investing and financing activities.

Cash flows from operating activities represent the cash flows of the Company generated from operating activities.

Cash flows related to investing activities represent the cash flows that are used in or provided from the investing activities of the Company (fixed asset investments and financial investments).

Cash flows arising from financing activities represent the cash proceeds from the financing activities of the Company and repayments of these funds.

Cash and cash equivalents comprise cash on hand and bank deposits and short term, highly liquid investments that are readily convertible to known amounts of cash with maturities equal or less than three months and which are subject to an insignificant risk of changes in value.

2.3.20. Conditional Assets and Liabilities

Assets and liabilities that originate from past incidents and whose presence is not fully under the company management control as it can only be confirmed through the realization of one or more indefinite incidents to take place in the future are not included in the financial statements and are deemed as conditional liabilities and assets.

2.3.21. Government Grants and Incentives

A government grant is recognised only when there is reasonable assurance that the entity will comply with any conditions attached to the grant and the grant will be

received. The grant is recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

2.3.22. Related Parties

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
- (i) has control or joint control over the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions applies:
- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Fair Value

Balances due from and to related parties are discounted at the interest rates of government bonds and the discounted values are assumed to approximate to their fair values.

2.3.23. Assets and Liabilities in Foreign Currency

Assets and liabilities in foreign currency are translated into Turkish Lira at the foreign currency rates announced by the Turkish Central Bank as at the reporting dates. Transactions in foreign currencies during the period are translated into Turkish Lira at the actual rates applicable on the transaction date. The Central Bank foreign exchange rates used by the Company as of the reporting date in translating foreign exchange balances into Turkish Liras are as follows:

	<u>Exchange Rate</u>	
	<u>31 December 2017</u>	<u>31 December 2016</u>
US Dollars - USD	3,7719	3,5192
EURO - EUR	4,5155	3,7099
Swiss Franc - CHF	3,8548	3,4454
British Pound - GBP	5,0803	4,3189
Japanese Yen - JPY	0,0334	0,0300
Swedish Crone - SEK	0,4567	0,3859
Saudi Arabian Riyal - SAR	1,0058	0,9383

2.3.24. Events After the Reporting Period

If the Company receives information after the reporting date about conditions that existed at the reporting date, it updates the financial statements that relate to those conditions, in the light of the new information. If non-adjusting events after the reporting date are material, the Company discloses them during the related period.

2.3.25. Changes in Accounting Policies, Accounting Estimates and Errors

Significant changes in accounting policies or significant errors are corrected, retrospectively; by restating the prior financial statements. The effects of changes in accounting estimates affecting the current period is recognized in the current period; the effect of changes in accounting estimates affecting current and future periods is recognized in the current and future periods.

If the amendments are related to the current as well as the forthcoming periods, then both current and forthcoming periods financial statements are adjusted. In instances where the accounting estimates affect both current and forthcoming periods, then description and monetary value of the estimate is disclosed in the notes to the financial statements.

2.3.26. Significant Accounting Estimates and Assumptions

During the preparation of financial statements, to disclose the statement of financial position value of the assets and liabilities stated in the financial statements as of the reporting date and explanations regarding off the statement of financial position liabilities, and to provide assumptions that might affect the totals of income and expense realized during the period are required. However, actual results may vary from these results. Estimates are regularly reviewed; required adjustments are made and reflected to the income statement at the period when they occur.

- (a) Termination indemnity liability is determined by using actuarial assumptions as discount rates, future salary increases and employee turnover rates by the Company. As these plans are long term plans, the said assumptions include significant ambiguities. (Note 14).
- (b) Impairment losses on trade receivables of the borrowers' are evaluated with creditworthiness, past payment performance of the borrowers. If the sales price is not measurable, the Company used the inventory turnover, physical situation of the inventory and comments of the technical team. (Note 6).
- (c) In determination impairment on inventory is evaluated by using list price of the inventory. For those inventory without a list price, aging and physical conditions are evaluated along with feedback received from technical personnel. (Note 8)
- (d) The Company Management evaluates the possibility of losing a lawsuit and the liabilities that arise in case of loss by taking the opinions of legal advisors and experts for determination of provisions for lawsuit. The Company determines the provisions for lawsuits based on the best estimates. (Note 14).
- (e) Warranty provision is evaluated based realized expenses. (Note 14).
- (f) Deferred tax assets are realized upon the recognition of taxable income in future years. In the event of the recognition of the taxable income, deferred tax is calculated from temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax asset is recognised since the assumption related to Company's taxable profit for the following period is deemed adequate. (Note 23)
- (g) The Company amortized its tangible and intangible assets in accordance with their useful economic lives as mentioned in Note 2 (Note 11,12).

3. Operating Segments

The scope of activities of the Company and the nature and economic characteristics of the products that make up this field of activity with production processes and the classification of customers according to their risks and the methods used to distribute products are similar. In addition, the Company's organizational structure was designed to manage a single activity rather than managing the Company as separate divisions involving different activities. For these reasons, the operations of the Company are considered as a single business segment and the results of operations and the determination of the resources to be allocated to these activities and the examination of their performance are evaluated in this framework.

4. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Cash (Note 26 (i))	4.590	5.533
Banks (Note 26 (i))	68.764.876	98.034.974
- TL demand deposit	4.925.203	2.767.205
- Foreign currency demand deposit	539.849	1.214.952
- TL time deposit	37.899.236	43.661.814
- Foreign currency time deposit	25.400.588	50.391.003
Cheques Received (Note 26 (i))	8.134.639	8.747.416
Type B Investment Fund (Liquid) (Note 26 (i), (iii))	711.651	186.379
Total	<u>77.615.756</u>	<u>106.974.302</u>

As of 31 December 2017, interest rates applied to time deposits are as follows:

			<u>31 December 2017</u>	
<u>Currency</u>	<u>Amount</u>	<u>TL Equivalent</u>	<u>Due Date</u>	<u>Interest Rate (%)</u>
USD	2.421.241	9.132.680	2 January 2018 - 2 February 2018	3,00 - 3,50
EUR	3.602.681	16.267.908	3 January 2018 - 12 January 2018	0,15 - 1,75
TL	37.899.236	<u>37.899.236</u>	2 January 2018 - 26 January 2018	14,25 -15,00
Total (Note 26 (iii))		<u>63.299.824</u>		

As of 31 December 2016, interest rates applied to time deposits are as follows:

			<u>31 December 2016</u>	
<u>Currency</u>	<u>Amount</u>	<u>TL Equivalent</u>	<u>Due Date</u>	<u>Interest Rate (%)</u>
USD	6.180.539	21.750.553	3 January 2017 - 10 February 2017	1,39 - 3,40
EUR	7.720.006	28.640.450	5 January 2017 - 27 January 2017	0,21 - 1,80
TL	43.661.814	<u>43.661.814</u>	2 January 2017 - 9 February 2017	8,93 -11,50
Total (Note 26 (iii))		<u>94.052.817</u>		

There are no blocked time deposits on bank accounts as of December 31, 2017 and 2016.

5. Financial Liabilities

As of 31 December 2017 and 2016 there are no financial liabilities.

6. Trade Receivables and Payables

Trade receivables consist of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Short term trade receivables;		
Customers	65.270.264	51.299.245
Notes receivable and post-dated cheques	118.514.242	110.935.518
Other receivables	35.603.102	25.952.247
Rediscount on receivables (-)		
Notes receivable	(1.158.219)	(772.772)
Post-dated cheques	(1.682.592)	(1.404.864)
Customers	(703.985)	(357.326)
Provision for doubtful trade receivables(-)		
(Note 26 (i))	<u>(24.740.508)</u>	<u>(21.413.138)</u>
Total receivables from non-related parties	191.102.304	164.238.910
Total receivables from related parties, net		
(Note 25, 26 (i))	16.841.518	15.080.060
Total	<u>207.943.822</u>	<u>179.318.970</u>

	<u>31 December 2017</u>	<u>31 December 2016</u>
Long term trade receivables;		
Notes receivable	127.403	170.272
Rediscount on Notes receivable (-)	<u>(25.352)</u>	<u>(14.294)</u>
Total (Note 26 (i))	<u>102.051</u>	<u>155.978</u>

The average maturity of the Company's trade receivables as of December 31, 2017 were 103 days. (December 31, 2016 – 107 days)

Changes in the provision for doubtful trade receivables are set out in the table below:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Opening balance	21.413.138	18.073.620
Current period provision expense (Note 18)	3.892.938	4.016.067
Provisions no longer required (Note 20)	<u>(565.568)</u>	<u>(676.549)</u>
Closing balance(Note 26 (i))	<u>24.740.508</u>	<u>21.413.138</u>

Trade payables consist of the following :

	<u>31 December 2017</u>	<u>31 December 2016</u>
Suppliers	33.071.360	23.920.520
Rediscount on payables (-)		
Suppliers	<u>(92.447)</u>	<u>(80.169)</u>
Due to non-related parties net	32.978.913	23.840.351
Due to related parties, net (Note 25)	<u>20.080.349</u>	<u>11.640.512</u>
Total (Note 26 (ii))	<u>53.059.262</u>	<u>35.480.863</u>

The average maturity of the Company's trade payables as of December 31, 2017 were 38 days. (December 31, 2016 – 37 days)

7. Other Receivables and Payables

Other receivables consist of the following :

	<u>31 December 2017</u>	<u>31 December 2016</u>
Short term other receivables;		
Deposits and guarantees given	146.197	158.579
Other miscellaneous receivables	54.743	14.586
Provision for other doubtful receivables (-)	<u>(1.000)</u>	<u>(1.000)</u>
Total	<u>199.940</u>	<u>172.165</u>

	<u>31 December 2017</u>	<u>31 December 2016</u>
Long term other receivables;		
Deposits and guarantees given	3.254	3.254
Total	<u>3.254</u>	<u>3.254</u>

Other payables consist of the following :

	<u>31 December 2017</u>	<u>31 December 2016</u>
Other payables to third parties;		
Taxes, duties and other withholdings payable	2.261.094	40.337
Due to personnel	31.849	35.925
Other miscellaneous debts	196.020	349.936
Total	<u>2.488.963</u>	<u>426.198</u>

	<u>31 December 2017</u>	<u>31 December 2016</u>
Other payables to related parties;		
Payables to shareholders (*)	-	18.907.368
Total (Note 25)	<u>-</u>	<u>18.907.368</u>

- (*) The Company has decided to make dividend payment to shareholders amounting to TL 44.496.000 at the Ordinary General Assembly Meeting held on March 29, 2016. It has been decided and paid half of the amount that belongs to Alarko Holding A.Ş. and Carrier HVACR Investments BV on November 30, 2016 and the other half of the amount will be paid on November 30, 2017. The total amount of dividend that belongs to the other shareholders was paid November 30, 2016 and the other half was paid November 30, 2017.

	<u>31 December 2017</u>	<u>31 December 2016</u>
Long term other payables to third parties;		
Deposits and guarantees received	630.357	503.981
Total	<u>630.357</u>	<u>503.981</u>

8. Inventories

Inventories consist of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Merchandise	58.951.825	53.497.763
Raw materials and supplies	30.239.954	24.894.273
Finished Goods	20.873.624	20.585.812
Semi-finished goods	10.397.006	6.538.767
Inventory provision (-) (Note 23)	<u>(9.356.523)</u>	<u>(7.298.538)</u>
Total	<u>111.105.886</u>	<u>98.218.077</u>

Changes in inventory provision are set out in the table below:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Opening balance	7.298.538	7.154.012
Current period (gain)/loss	2.057.985	144.526
Closing balance	<u>9.356.523</u>	<u>7.298.538</u>

9. Derivative Financial Instruments

As of 31 December 2017, The Company has undue forward contracts. Forward transactions are as follows:

<u>Due date</u>	<u>Payment</u>		<u>Collection</u>		<u>Due date parity</u>	<u>Fair Value (TL equivalent)</u>
	<u>Amount</u>	<u>Currency</u>	<u>Amount</u>	<u>Currency</u>		
02.02.2018	500.000	USD	1.986.300	TL	3,9726	100.350
23.03.2018	600.000	EUR	2.805.720	TL	4,6762	96.420
02.02.2018	650.000	EUR	3.018.015	TL	4,6431	82.940
23.03.2018	350.000	USD	1.366.435	TL	3,9041	46.270
12.01.2018	500.000	EUR	2.302.950	TL	4,6059	45.200
05.01.2018	450.000	EUR	1.996.200	TL	4,4360	(35.775)
						<u>335.405</u>

As of 31 December 2016, The Company has undue forward contracts. Forward transactions are as follows:

<u>Due date</u>	<u>Payment</u>		<u>Collection</u>		<u>Due date parity</u>	<u>Fair Value (TL equivalent)</u>
	<u>Amount</u>	<u>Currency</u>	<u>Amount</u>	<u>Currency</u>		
20.01.2017	1.000.000	EUR	1.092.000	USD	1,0920	133.067
03.03.2017	450.000	EUR	483.930	USD	1,0754	33.591
24.03.2017	850.000	EUR	3.185.800	TL	3,7480	32.385
24.03.2017	250.000	USD	893.825	TL	3,5753	14.025
27.01.2017	200.000	EUR	704.900	TL	3,5245	(37.080)
10.02.2017	500.000	USD	1.660.450	TL	3,3209	(99.150)
03.02.2017	500.000	USD	1.657.950	TL	3,3159	(101.650)
						<u>(24.812)</u>

10. Prepaid Expenses and Deferred Income

Short-term prepaid expenses consist of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Advances given to suppliers	30.368.696	10.850.081
Short-term prepaid expenses	<u>704.592</u>	<u>844.251</u>
Total	<u>31.073.288</u>	<u>11.694.332</u>

Long-term prepaid expenses consist of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Advances given	41.000	20.429
Long-term prepaid expenses	<u>108.783</u>	<u>128.383</u>
Total	<u>149.783</u>	<u>148.812</u>

Short-term deferred income consists of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Advances received	20.062.627	16.456.871
Short-term deferred income	<u>330.796</u>	<u>96.845</u>
Total	<u>20.393.423</u>	<u>16.553.716</u>

Long-term deferred income consists of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Long-term deferred income	<u>228.408</u>	<u>259.662</u>
Total	<u>228.408</u>	<u>259.662</u>

11. Tangible Assets

Tangible assets consist of the following:

	<u>1 January 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>31 December 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>31 December 2017</u>
Cost									
Land	6,466,966	-	-	-	6,466,966	-	-	(695,539)	5,771,427
Land improvements	3,173,640	-	-	-	3,173,640	20,572	-	-	3,194,212
Buildings	32,987,542	1,845	-	-	32,989,387	28,196	-	-	33,017,583
Plant, machinery and equipment	31,821,758	300,510	(1,283)	27,201	32,148,186	650,364	(5,366)	53,956	32,847,140
Motor vehicles	888,031	-	-	-	888,031	-	-	-	888,031
Furniture and fixtures	16,938,058	688,485	(103,720)	3,461	17,526,284	885,840	(162,140)	-	18,249,984
Other tangible assets	17,313,411	698,886	-	56,654	18,068,951	167,375	-	-	18,236,326
Leasehold improvements	2,596,116	21,667	-	-	2,617,783	22,927	-	-	2,640,710
Construction in progress	-	91,857	(4,541)	(87,316)	-	293,802	-	(53,956)	239,846
Total	112,185,522	1,803,250	(109,544)	(87,316)	113,879,228	2,069,076	(167,506)	(695,539)	115,085,259

	<u>1 January 2016</u>	<u>Depreciation Expense For the Period (Note 19)</u>	<u>Sales</u>	<u>Transfers 31 December 2016</u>	<u>31 December 2016</u>	<u>Depreciation Expense For the Period (Note 19)</u>	<u>Sales</u>	<u>Transfers</u>	<u>31 December 2017</u>
Accumulated Depreciation									
Land improvements	2,619,445	172,468	-	-	2,791,913	162,908	-	-	2,954,821
Buildings	18,537,542	1,127,158	-	-	19,664,700	1,127,429	-	-	20,792,129
Plant, machinery and equipment	24,256,915	1,068,880	(43)	-	25,325,752	1,108,870	(56)	-	26,434,566
Motor vehicles	821,841	34,534	-	-	856,375	31,656	-	-	888,031
Furniture and fixtures	14,782,101	719,168	(93,812)	-	15,407,457	748,763	(134,744)	-	16,021,476
Other tangible assets	15,114,420	848,871	-	-	15,963,291	846,862	-	-	16,810,153
Leasehold improvements	2,240,760	132,968	-	-	2,373,728	116,043	-	-	2,489,771
Total	78,373,024	4,104,047	(93,855)	(87,316)	82,383,216	4,142,531	(134,800)	(695,539)	86,390,947
Tangible Assets, net	33,812,498				31,496,012				28,694,312

12. Intangible Assets

Intangible assets consist of the following:

Cost	1 January 2016	Additions	Disposals	31 December 2016	Additions	Disposals	31 December 2017
Rights	5.221.788	1.010.935	-	6.232.723	1.019.057	-	7.251.780
Total	5.221.788	1.010.935	-	6.232.723	1.019.057	-	7.251.780

Accumulated Amortization	1 January 2016	Amortization Expense For the Period (Note 19)	Sale Amortization	31 December 2016	Amortization Expense For the Period (Note 19)	Sale Amortization	31 December 2017
Rights	4.281.169	643.332	-	4.924.501	723.578	-	5.648.079
Total Accumulated Amortization	4.281.169	643.332	-	4.924.501	723.578	-	5.648.079
Intangible Assets, net	<u>940.619</u>			<u>1.308.222</u>			<u>1.603.701</u>

13. Government Grants and Incentives

None. (31 December 2016: None)

14. Provisions, Conditional Assets and Liabilities

a) Employee benefit obligations are as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Payables of Social Security	1.595.698	1.826.474
Income Tax Payable	1.329.716	1.224.311
Payables to Personnel	<u>92.677</u>	<u>96.530</u>
Total	<u>3.018.091</u>	<u>3.147.315</u>

b) Short term provisions for employee benefits are as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Provision for premium	<u>1.028.631</u>	-
Total	<u>1.028.631</u>	-

c) Other short term provisions are as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Provision for guarantee and installation expenses (Note 23)	3.798.658	4.116.904
Provision for lawsuits (Note 23)	1.112.359	586.759
Provision for penalty charged by the competition Board	-	225.273
Provision for contractual expenses	<u>141.444</u>	<u>78.094</u>
Total	<u>5.052.461</u>	<u>5.007.030</u>

Changes in provision for guarantee and installation expenses set out in the table below:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Opening Balance	4.116.904	2.987.219
Charge for the current period	305.319	1.129.685
Provisions no longer required	<u>(623.565)</u>	-
Closing Balance	<u>3.798.658</u>	<u>4.116.904</u>

d) Long term provisions for employee benefits are as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Unused vacation liability (Note 23 (b))	286.234	259.895
Severance pay liability (Note 23 (b))	<u>18.378.837</u>	<u>15.876.969</u>
Total	<u>18.665.071</u>	<u>16.136.864</u>

Changes in provision for unused vacation liability is set out in the table below:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Opening balance	259.895	199.629
Additional/disposal in current period (Note 18,19)	<u>26.339</u>	<u>60.266</u>
Closing Balance	<u>286.234</u>	<u>259.895</u>

Changes in provision for Severance pay liability set out in the table below:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Opening balance	15.876.969	13.917.071
Service expense	1.517.724	1.348.683
Interest expense	2.159.267	1.503.043
Payment in current period (Note 19)	<u>(1.455.386)</u>	<u>(1.967.186)</u>
Actuarial difference	280.263	1.075.358
Closing balance	<u>18.378.837</u>	<u>15.876.969</u>

Provision For Employee Termination Benefits :

Under the Turkish Legislation, 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 according to the 25/II of the Act in Article, is called up for military service, leaves within one year after married (for women), dies or who reaches the retirement age. The amount payable consists of one month's salary limited to a maximum of full TL 4.732,48 as of December 31, 2017 (December 31, 2016 TL 4.297,21) for each period of service.

The Company has calculated the liability of employee termination benefit according to specified receiving to financial statements and valuation principles in accordance with Turkish Accounting Standards ("TAS") Article 19, "Benefits for Employee". By the reason fact that termination indemnity liabilities, in terms of features, are identical with as defined in the section "The Certain Benefit Plans In Relation to Post Employment Period", these liabilities calculated and reflected to the financial statements using described below "Projected Unit Credit Method" and certain assumptions.

The date of pension are determined according to the past employment durations of employee in accordance with Turkish Security Laws.

In case of the retirement or leave of an employee, the net present value of the liability, which will be paid in the future, is higher than the salary of the employee or the termination benefit defined by government, termination benefit has taken into consideration. In this calculation 31 December 2017 termination benefit has been assumed that it has been stabilized. Later on value of termination benefit has been discounted by using 3,74% (31 December 2016 - 3,55%) which is calculated based the interest rate of government debt securities 13,60% (31 December 2016 - 10,80%) and inflation rate 9,50% (31 December 2016 - 7%).

- e) In the letter sent by the Competition Authority to Alarko Carrier Sanayi ve Ticaret A.Ş. (Company), it is stated that a judicial inquiry is set up for the purpose of determining whether the agreements entered into between the Company and its authorized dealers and services include competitive restrictions. As a result of the investigation made upon the mentioned letter, it has been communicated to the Company on 8 March 2007 that an administrative penalty of TL 225.273 that corresponds 0,1% of the net sales of 2005 year has been inflicted on the Company. Provision has been booked for total amount of administrative penalty in the accompanying financial statements. As of 11 June 2007 the Company, filed for suspension of execution followed by an application for rejection of resolution to the State Council and application was rejected by the decision of Council of State's on December 13, 2010. The Company voluntarily filed an appeal with the Court to stop the execution of the case against the Company. However, it is approved. Against this decision of ratification, a "correction of decision" has been applied for, and it has been examined by the Council of State and ratified again and the penalty amount was paid on 26 December 2017.
- f) As of December 31, 2017 the guarantees given amount to TL 28.189.268 (31 December 2016 - TL 20.147.345).
- g) As of December 31, 2017 guarantees taken amount to TL 84.737.811 (31 December 2016 - TL 83.679.737).
- h) As of December 31, 2017 for the receivables that can not to be collected and the provision for these trade receivables amount to TL 24.740.508 (31 December 2016 - TL 21.413.138).

As of 31 December 2017 and 2016, the tables related to the Company's guarantee /surety /mortgage position are as follows:

31 December 2017	TL equivalent	TL	USD	EUR	GBP
Guarantees/sureties/mortgages given by the Company					
A. Total given in the name of the Company's own corporate body	28.189.268	3.422.610	3.607.438	2.204.350	237.392
B. Total given in the name of the partnerships included in full consolidation	-	-	-	-	-
C. Total given for lending money to the third parties in order to carry on regular commercial activities	-	-	-	-	-
D. Others	-	-	-	-	-
i. Total given in the name of the Parent Company	-	-	-	-	-
ii. Total given in the name of the other group companies not included in paragraph B and C	-	-	-	-	-
iii. Total given for the parties not included in the paragraph C	-	-	-	-	-
TOTAL	28.189.268	3.422.610	3.607.438	2.204.350	237.392

31 December 2016	TL equivalent	TL	USD	EUR	GBP
Guarantees/sureties/mortgages given by the Company					
A. Total given in the name of the Company's own corporate body	20.147.345	3.125.178	1.215.745	3.061.969	320.479
B. Total given in the name of the partnerships included in full consolidation	-	-	-	-	-
C. Total given for lending money to the third parties in order to carry on regular commercial activities	-	-	-	-	-
D. Others	-	-	-	-	-
i. Total given in the name of the Parent Company	-	-	-	-	-
ii. Total given in the name of the other group companies not included in paragraph B and C	-	-	-	-	-
iii. Total given for the parties not included in the paragraph C	-	-	-	-	-
TOTAL	20.147.345	3.125.178	1.215.745	3.061.969	320.479

As of 31 December 2017 and 2016 there is no other guarantees, sureties, and mortgages given by the Company.

15. Other Assets and Liabilities

Other current assets consist of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Prepaid taxes and funds	352.210	263.041
Other VAT	15.399	-
Deferred VAT	4.556	-
Other special consumption tax	-	4.236.761
Other current assets	<u>166.874</u>	<u>32.293</u>
Total	<u>539.039</u>	<u>4.532.095</u>

Other liabilities consist of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Expense accruals	356.366	222.692
Other VAT	15.399	-
Special consumption tax	<u>4.556</u>	-
Total	<u>376.321</u>	<u>222.692</u>

16. Equity

(a) Share Capital:

As of December 31, 2017 and 2016 the share capital of the Company in the below.

<u>Name</u>	<u>Shareholding</u>	<u>Book Value</u>
Alarko Holding A.Ş.	42,03%	4.539.130
Carrier HVACR Investments B.V.	42,03%	4.539.130
Other (*)	<u>15,94%</u>	<u>1.721.740</u>
Share Capital	<u>100,00%</u>	<u>10.800.000</u>
Capital adjustment differences		<u>25.665.050</u>
Total share capital		<u>36.465.050</u>

(*)Represents total of shareholdings less than 10%.

The Company's upper limit of registered capital is TL 10.800.000. The paid-in capital of TL 10.800.000 consists of 1.080.000.000 shares of Kr 1 nominal value each. The Company has no preferred shares.

(b) Restricted Profit Reserves:

As of 31 December 2017 and 2016, restricted profit reserves consist of legal reserves.

The legal reserves consist of the first and second reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profit at the rate of 5% until the total reserve reaches a maximum of 20% of the Company's paid-in capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the Company's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share

capital, however they can be used to offset losses if there are no retained earnings. As at 31 December 2017, the legal reserve amounting to TL 15.628.843 (31 December 2016: TL 12.436.363)

(c) Retained Earnings / (Accumulated Losses):

Retained earnings / (accumulated losses) consist of the following (TL):

	<u>31 December 2017</u>	<u>31 December 2016</u>
2016 profit transfer	38.081.053	-
2015 profit transfer	-	36.825.398
Transfer to legal reserves	(3.192.480)	(4.395.601)
Dividends paid	(32.464.800)	(44.496.000)
Extraordinary reserves	167.592.227	179.658.430
Inflation adjustment differences	<u>90.050.473</u>	<u>90.050.473</u>
Retained earnings	<u>260.066.473</u>	<u>257.642.700</u>

Distribution of retained earnings / (accumulated losses) is as follows (TL):

	<u>31 December 2017</u>	<u>31 December 2016</u>
Extraordinary reserves	170.016.000	167.592.227
Inflation adjustment differences	<u>90.050.473</u>	<u>90.050.473</u>
Total	<u>260.066.473</u>	<u>257.642.700</u>

Public Companies distribute dividend in accordance with the Communiqué Serial No, II-19.1 issued by the CMB which is effective from February 1, 2014.

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communique does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of incorporation. In addition, dividend can be distributed by fixed or variable installments and advance dividend can be paid in accordance with profit on interim financial statements of Company.

In accordance with the Turkish Commercial Code (TCC), unless the required reserves and the dividend for shareholders as determined in the article of association or in the dividend distribution policy of the company are set aside, no decision may be made to set aside other reserves, to transfer profits to the subsequent year or to distribute dividends to the holders of usufruct right certificates, to the members of the board of directors or to the employees; and no dividend can be distributed to these persons unless the determined dividend for shareholders in paid in cash.

Differences in inflation adjustment in equity arising from restatement of share premium and legal and extraordinary reserves consist of the following:

<u>31 December 2017</u>			<u>Inflation Adjustment Difference</u>
	<u>Historic Value</u>	<u>Restated Value</u>	
Share premium	-	19.743	19.743
Legal reserves	15.628.843	25.870.269	10.241.426
Extraordinary reserves	170.016.000	249.805.304	<u>79.789.304</u>
			<u>90.050.473</u>

<u>31 December 2016</u>			<u>Inflation Adjustment Difference</u>
	<u>Historic Value</u>	<u>Restated Value</u>	
Share premium	-	19.743	19.743
Legal reserves	12.436.363	22.677.789	10.241.426
Extraordinary reserves	167.592.227	247.381.531	<u>79.789.304</u>
			<u>90.050.473</u>

Inflation adjustment differences may be used in bonus issue and loss deduction. Furthermore, the inflation adjustment differences that arise from legal reserves bearing no clause to restrict profit distribution may be used in profit distribution. As of 31 December 2017, the other sources that may be subject to profit distribution amount to a total of TL 249.805.304 (Note 23) (31 December 2016 - TL 247.381.531).

17. Sales and Cost of Sales

Sales are as follows;

	<u>31 December 2017</u>	<u>31 December 2016</u>
Domestic sales	528.124.193	445.119.380
Exports (Note 26 iv)	62.007.699	51.051.628
Other sales	1.049.401	424.807
Sales returns	(3.231.756)	(4.528.508)
Sales discounts	<u>(6.824.316)</u>	<u>(5.052.787)</u>
Total	<u>581.125.221</u>	<u>487.014.520</u>

Cost of sales consists of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Cost of trade goods sold	282.082.036	240.727.315
Cost of goods sold	112.460.541	96.620.472
Cost of services sold (*)	25.694.706	23.685.673
Cost of semi-finished goods sold	<u>8.727.721</u>	<u>5.940.514</u>
Total	<u>428.965.004</u>	<u>366.973.974</u>

(*) Cost of services sold is consisted of maintenance, failure repair, installation and commissioning services. As of 31 December 2016, service sales accounted for TL 34.474.063 of the total sales. (31 December 2016 - TL 30.852.469).

18. General Administration Expenses, Marketing Expenses, Research and Development Expenses

General administration expenses, marketing expenses, research and development expenses, consist of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
General administration expenses	25.337.214	22.325.166
Marketing expenses	77.175.811	71.085.121
Research and development expenses	<u>7.916.677</u>	<u>6.986.056</u>
Total	<u>110.429.702</u>	<u>100.396.343</u>

Research and development expenses consist of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Personnel expenses (Note 19)	4.677.274	4.189.041
Outsourced benefits and services	2.743.401	2.311.344
Depreciation and amortization (Note 19)	495.972	485.096
Taxes, duties and fees	<u>30</u>	<u>575</u>
Total	<u>7.916.677</u>	<u>6.986.056</u>

Marketing expenses consist of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Outsourced benefits and services	22.338.581	18.941.912
Personnel expenses (Note 19)	20.893.013	19.809.253
Exposition, advertisement, and representation expenses	13.012.983	11.469.990
Rebate expenses	8.958.779	8.139.855
Allowance and travel expenses	2.571.834	2.287.787
Depreciation and amortization (Note 19)	573.563	554.730
Taxes, duties and fees	430.819	403.143
Other expenses	<u>8.396.239</u>	<u>9.478.451</u>
Total	<u>77.175.811</u>	<u>71.085.121</u>

General administration expenses consist of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Personnel expenses	7.097.633	6.822.210
Provision for doubtful trade receivables (Note 6)	3.892.938	4.016.067
Termination indemnity provision	3.905.064	2.674.517
Outsourced benefits and services	2.245.494	1.812.172
Depreciation and amortization (Note 19)	566.298	553.806
Provision for guarantee	305.319	229.860
Provision for litigation	525.599	201.309
Provision for unused vacation (Note 14,19)	26.339	60.266
Taxes, duties and fees	20.236	31.873
Other expenses	<u>6.752.294</u>	<u>5.923.086</u>
Total	<u>25.337.214</u>	<u>22.325.166</u>

19. Expenses by Nature

Depreciation and amortization expenses consist of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
General production expenses	3.186.542	3.109.156
General administration expenses (Note 18)	573.563	554.730
Marketing expenses (Note 18)	566.298	553.806
Research and development expenses (Note 18)	495.972	485.096
Service rendering costs	<u>43.734</u>	<u>44.591</u>
Total	<u>4.866.109</u>	<u>4.747.379</u>
	<u>31 December 2017</u>	<u>31 December 2016</u>
Tangible assets depreciation (Note 11)	4.142.531	4.104.047
Intangible assets amortization (Note 12)	<u>723.578</u>	<u>643.332</u>
Total	<u>4.866.109</u>	<u>4.747.379</u>

Employee benefits consist of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Marketing expenses (Note 18)	20.893.013	19.809.253
General production expenses	11.821.474	10.144.626
General administration expenses	11.029.036	9.556.993
Direct labor costs	8.569.945	7.545.149
Service rendering costs	5.626.761	5.183.155
Research and development expenses (Note 18)	<u>4.677.274</u>	<u>4.189.041</u>
Total	<u>62.617.503</u>	<u>56.428.217</u>
	<u>31 December 2017</u>	<u>31 December 2016</u>
Personnel wages and salaries	47.692.326	43.300.909
Personnel transportation expenses	3.404.873	2.815.345
Provision for termination indemnity	3.905.064	2.851.726
Personnel catering expense	1.919.605	1.707.079
Termination indemnity paid (Note 14)	1.455.386	1.967.186
Benefits in cash and kind	1.167.341	1.378.165
Personnel healthcare expenses	396.565	347.594
Provision for unused vacation (Note 14,18)	26.339	60.266
Other personnel expenses	<u>2.650.004</u>	<u>1.999.947</u>
Total	<u>62.617.503</u>	<u>56.428.217</u>

20. Other Operating Income/Expenses

Other operating income consists of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Maturity difference income	16.372.620	12.689.142
Foreign exchange gains	14.319.197	16.502.611
Rediscount income	2.651.141	2.086.196
Interest income	6.649.708	7.569.536

Provisions for termination indemnity no longer required	1.683.460	1.789.978
Provisions for litigation no longer required	-	319.370
Provisions for doubtful trade receivables no longer required (Note 6)	565.568	676.549
Commission income	761.545	-
Received compensation	16.151	20.622
Other income and profits	<u>709.578</u>	<u>683.445</u>
Total	<u>43.728.968</u>	<u>42.337.449</u>

Other operating expenses consist of the following :

	<u>31 December 2017</u>	<u>31 December 2016</u>
Foreign exchange loss	10.215.793	7.129.060
Expenses under warranty	3.850.103	3.038.237
Rediscount interest loss	3.652.518	2.637.045
Maturity difference loss	897.565	797.475
Forward provisions loss	-	540.978
Trading expenses	411.105	418.897
Commission expenses	309.223	324.112
Other expenses and losses	<u>421.713</u>	<u>351.267</u>
Total	<u>19.758.020</u>	<u>15.237.071</u>

21. Financial Expenses

Financial expenses consist of the following :

	<u>31 December 2017</u>	<u>31 December 2016</u>
Interest paid to related parties	2.601.630	-
Other financial expenses	<u>492.316</u>	<u>602.054</u>
Total	<u>3.093.946</u>	<u>602.054</u>

22. Assets Held for Sale

	<u>31 December 2017</u>	<u>31 December 2016</u>
Mortgaged assets held for sale	286.250	785.022
Assets held for sale	<u>695.539</u>	-
Total	<u>981.789</u>	<u>785.022</u>

As of December 31, 2017, the mortgage assets held for sale consist of assets that the Company intends to sell in the short-term (from the buildings), in exchange for the receivables that the Company can not collect.

As of December 31, 2017, fixed assets held for sale consist of land of 29.865 m² registered on 4723 parcels in Istanbul Tuzla, Kanlımandıra on the balance sheet assets of the Company.

23. Tax Assets and Liabilities

a) Corporation Tax;

Tax expenses recognized in the statement of income are summarized below:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Current period tax	(13.042.481)	(8.907.501)
Deferred tax income	<u>2.243.924</u>	<u>850.332</u>
Total tax income / (expense)	<u>(10.798.557)</u>	<u>(8.057.169)</u>

The corporation tax rate for 2017 and 2016 is 20% in Turkey. This rate is applicable to the tax base derived upon exemptions and deductions stated in the tax legislation through addition of disallowable expenses to the commercial revenues of the companies with respect to the tax legislation.

Calculation of current period tax expenses is as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Profit before tax	62.589.591	46.138.222
Tax expense calculated using 20% local rate	(12.517.918)	(9.227.644)
Disallowable expenses	(129.601)	(83.689)
Effect on deferred tax balances due to change in income tax rate from 20% to 22%	451.957	-
Other exceptions (*)	<u>1.397.005</u>	<u>1.254.164</u>
Current period tax income / (expense)	<u>(10.798.557)</u>	<u>(8.057.169)</u>

Other discounts and exceptions amount consists mainly R&D discounts and exemption of export amount.

Current income tax liability is as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Provision for current period corporation tax	13.042.481	8.907.501
Prepaid taxes and funds	<u>(8.151.891)</u>	<u>(4.485.162)</u>
Total	<u>4.890.590</u>	<u>4.422.339</u>

b) Deferred Tax Assets and Liabilities;

Temporary differences creating a basis for deferred tax calculations and deferred tax assets/liabilities and deferred tax income/expenses are as follows:

	Total Temporary Income / (Expense) Differences		Deferred Tax Asset / (Liability)	
	<u>31.12.2017</u>	<u>31.12.2016</u>	<u>31.12.2017</u>	<u>31.12.2016</u>
Adjustment of rediscount on customers (*)	1.210.578	365.518	266.327	73.104
Provision for the decrease in the value of inventories (Note 8) (*)	9.356.523	7.298.538	2.058.435	1.459.708
Net difference between the book values of inventories and tax bases (*)	2.064.764	2.192.312	454.248	438.461
Provision for doubtful receivables (*)	3.583.973	2.427.037	788.474	485.407

Provision for warranty expense (Note 14) (*)	3.798.658	4.116.904	835.705	823.381
Provision for litigation expenses (Note 14) (*)	1.112.359	586.759	244.719	117.352
Expense accrual (*)	1.620.692	43.154	356.552	8.631
Provision for unused vacation (Note 14) (*)	286.234	259.895	62.971	51.979
Net difference between the book values of tangible and intangible assets and their tax bases	16.234.899	14.860.924	3.246.979	2.972.185
Termination indemnity (Note 14)	18.378.837	15.876.969	3.675.767	3.175.394
Deferred Tax Assets	57.647.517	48.028.010	11.990.177	9.605.602
Adjustment of rediscount on suppliers(*)	(100.535)	(81.365)	(22.119)	(16.273)
Adjustment of financial instruments valuation differences (Note 9) (*)	(335.405)	24.812	(73.790)	4.962
Deferred Tax Liabilities	(435.940)	(56.553)	(95.909)	(11.311)
Deferred Tax Assets / (Liabilities) (Net)	57.211.577	47.971.457	11.894.268	9.594.291

(*) The provisional article 10 which is added to the Corporate Tax Law in accordance with Law No. 7061 and published in 30261 numbered official gazette and dated December 5, 2017, corporation tax rate of 20% will be applied as 22% in 2018, 2019 and 2020 for all corporations. Due to the termination indemnity and difference in tangible assets is long term liabilities, the tax rate applied 20% to deferred tax calculation of temporary difference.

Deferred Tax Income / (Expense):

	<u>31 December 2017</u>	<u>31 December 2016</u>
Current period deferred tax assets	11.894.268	9.594.291
Reversal of prior period deferred tax asset / (liability)	<u>(9.594.291)</u>	<u>(8.528.887)</u>
Current period deferred tax income / (expense)	<u>2.299.977</u>	<u>1.065.404</u>
	<u>31 December 2017</u>	<u>31 December 2016</u>
Continuing operations deferred tax assets	2.243.924	850.332
Effect of the actuarial gain/loss on deferred tax	56.053	215.072
Deferred tax income / (expense)	<u>2.299.977</u>	<u>1.065.404</u>

24. Earnings Per Share

Calculation of earnings per share is as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Profit for the period (TL)	51.791.034	38.081.053
Weighted average number of ordinary shares*	10.800.000	10.800.000
Earnings per share (TL)	4,795	3,526
Distributed dividend to shareholders	32.464.800	44.496.000
Gross dividend per share	3,006	4,120

(*) per share of TL 1 nominal value

With respect to the financial statements attached, the Company's profit for the period as of 31 December 2017 amounts to TL 51.791.034 (December 31, 2016 - TL 38.081.053) and the other sources that may be subject to profit distribution amount to TL 249.805.304 (December 31, 2016 - TL 247.381.531) (Note 16 (c)).

As of December 31 2017, the Company's net profit for the period as per the legal records is TL 54.835.990 (December 31, 2016 - TL 38.808.537) and the sum of other sources in the legal records that may be subject to profit distribution amounts to TL 272.458.505 (December 31, 2016 - TL 250.835.686).

25. Related Party Disclosures

Trade receivables from related parties consist of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Carrier Kuwait Airconditioning	4.905.395	5.546.831
AHI Carrier FZC	3.528.710	1.528.100
UTS Carrier LLC	2.851.879	2.460.899
AHI Carrier South Eastern Europe Airconditioning	2.508.753	152.518
Carrier SCS	1.516.339	915.240
United Technologies Building & Industrial Systems W.L.L.	965.589	3.018.172
AHI Carrier HVAC Bulgaria	191.272	-
UTC Clima Servicio Y Controles Iberia SL	172.637	533.076
Alsim Alarko Sanayi Tesisleri ve Ticaret A.Ş.	86.279	24.069
Cenal Elektrik Üretim A.Ş.	38.463	12.851
Attaş Alarko Turistik Tesisler A.Ş.	21.094	31.936
Arabian Airconditioning Company Ltd.	15.804	-
Alarko-Cengiz Metro Ortak Girişimi	12.854	-
Carrier Airconditioning Benelux BV	10.661	-
Midea Carrier LTDA	10.521	-
Alarko Gayrimenkul Yatırım Ortaklığı A.Ş.	1.787	2.548
Altek Alarko Elektrik Santralleri Tes. İşl. ve Tic. A.Ş.	1.688	114
Panel Enerji A.Ş.	1.261	-
Meram Elektrik Perakende Satış A.Ş.	515	-
Carrier AB	470	816
Alcen Enerji Dağ.ve Perak. Sat. Hizm. A.Ş.	397	-
Alen Alarko Enerji Ticaret A.Ş.	156	114
Carrier Australia Pty Ltd.	-	803.394
FACT SA	-	23.743
Alvimedica Tıbbi Ürünler San. ve Dış Tic. A.Ş.	-	23.378
Alvimedica Sağlık Yatırımları A.Ş.	-	2.356
Toshiba Carrier UK Ltd.	-	890

Al-Riva Proje. Ar. Değ. Konut İnş. Tic. A.Ş.	-	366
Rediscount of trade receivables from related parties	(1.006)	(1.351)
Total (Note 6)	<u>16.841.518</u>	<u>15.080.060</u>

Trade payables to related parties consist of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Toshiba Carrier Thailand	10.763.574	3.083.844
Carrier Corporation	4.820.814	4.577.825
Carrier SCS	1.956.399	2.527.587
Toshiba Carrier Corporation	1.486.309	553.826
Carrier ARCD Pte. LTD.	402.923	-
Alarko Holding A.Ş.	268.412	263.589
Toshiba Carrier Air - Conditioning	142.578	112.333
Toshiba Carrier UK Ltd.	87.959	74.629
UTC Climate, Controls & Security International	74.430	132.000
Automated Logic Corporation	56.656	-
Carrier SPA	25.247	20.742
Meram Elektrik Enerjisi Toptan Satış A.Ş.	3.136	4.196
Profroid	-	288.564
United Technologies Building & Industrial Systems W.L.L.	-	1.320
Alarko Gayrimenkul Yatırım Ortaklığı A.Ş.	-	1.254
Rediscount of trade payables to related parties	(8.088)	(1.197)
Total (Note 6)	<u>20.080.349</u>	<u>11.640.512</u>

	<u>31 December 2017</u>	<u>31 December 2016</u>
Other payables to related parties		
Payables to shareholders (*)	-	18.907.368
Total (Note 7)	-	<u>18.907.368</u>

(*)The Company has decided to make dividend payment to shareholders amounting to TL 44.496.000 at the Ordinary General Assembly Meeting held on March 29, 2016. It has been decided and paid half of the amount that belongs to Alarko Holding A.Ş. and Carrier HVACR Investment BV on November 30, 2016 and the other half of the amount will be paid on November 30, 2017. The total amount of dividend that belongs to the other shareholders was paid November 30, 2016 and the other half was paid November 30, 2017.

Sales to related parties consist of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
AHI Carrier FZC	9.369.258	7.165.750
UTS Carrier LLC	9.191.073	5.262.312
Carrier Kuwait Airconditioning	5.819.248	11.453.378
United Technologies Building & Industrial Systems W.L.L.	5.528.959	6.094.388
AHI Carrier South Eastern Europe Airconditioning	3.489.785	869.058
Cenal Elektrik Üretim A.Ş.	1.844.241	2.035.029
Carrier SCS	1.555.937	898.346

UTC Clima Servicio Y Controles Iberia SL	878.620	1.343.349
AHI Carrier HVAC Bulgaria	853.377	-
Carrier Africa FZE	501.488	-
AHI Carrier Australia Pty Ltd.	399.318	862.607
Carrier Airconditioning Benelux BV	257.255	245.770
Carrier Polska SP.Z.O.O.	221.284	433.063
Alsim Alarko Sanayi Tesis. ve Ticaret A.Ş.	167.741	118.394
Attaş Alarko Turistik Tesisler A.Ş.	118.817	160.953
Midea Carrier LTDA.	96.482	-
Alvimedica Tıbbi Ürünler San. ve Dış Tic. A.Ş.	53.597	-
AHI Carrier Romania SRL	43.427	-
UTC Klimatechnik GMBH	39.207	-
Toshiba Carrier (Thailand) Co.	34.215	5.337
Arabian Airconditioning Company Ltd.	15.027	-
Alarko-Cengiz Metro Ortak Girişimi	10.893	-
Alarko Holding A.Ş.	8.027	6.679
Alarko Fenni Malzeme Satış ve İmalat A.Ş.	6.180	5.640
Alarko Gayrimenkul Yatırım Ortaklığı A.Ş.	2.535	2.326
Carrier AB	2.401	30.847
Panel Enerji A.Ş.	1.688	1.084
Altek Alarko Elektrik Santralleri Tesis İşletme ve Ticaret A.Ş.	1.430	96
Miraco International Trading	1.125	-
Alvimedica Sağlık Yatırımları A.Ş.	511	-
Meram Elektrik Dağıtım A.Ş.	436	417.147
Alcen Enerji Dağıtım ve Perakende Satış Hiz. A.Ş.	336	-
Alen Alarko Enerji Tic. A.Ş.	132	-
Carrier Singapore (pte) Ltd.	-	1.030.001
AHI Carrier Nz Ltd.	-	104.487
Toshiba Carrier UK Limited	-	100.257
AHI Carrier CZ S.R.O	-	30.665
Carrier Asia	-	18.372
Toshiba Carrier Corporation	-	13.129
Carrier Klimatechnik Gmbh	-	12.439
Al-Riva Proje Ar. Değ. Konut İnş. Tic. A.Ş.	-	310
Total	<u>40.514.050</u>	<u>38.721.213</u>

Purchases from related parties consist of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Toshiba Carrier Co. Ltd. (Thailand)	79.965.410	68.577.794
Toshiba Carrier Corp.	30.748.978	28.865.543
Carrier SCS	15.199.649	18.024.721
Carrier Corporation	14.073.898	12.520.789
Century Carrier Residential Air-Conditioning	12.424.877	-
Carrier Refrigeration Operation Czech Republic s.r.o.	7.858.659	3.519.884
Alarko Holding A.Ş.	3.708.954	2.715.740
E.R.C.D. SA	1.744.663	1.294.044
Profroid	1.397.870	815.122
UTC Climate, Controls & Security International SAS	1.357.210	-
Automated Logic Corp.	1.353.246	-
Toshiba Carrier UK Ltd.	1.183.437	947.918
Carrier ARCD PTE Ltd.	1.041.566	1.739.135
Toshiba Carrier Air-Conditioning Sales (Shanghai)	670.478	196.304

United Technologies Building & Industrial Systems W.L.L.	512.794	2.538.521
Alsim Alarko Sanayi Tesis. ve Ticaret A.Ş.	95.033	300
Carrier Middle East Ltd.	73.032	76.941
Meram Elektrik Enerjisi Toptan Satış A.Ş.	47.604	51.310
AHI Carrier Romania SRL	34.281	-
Attaş Alarko Turistik Tesisler A.Ş.	4.622	-
U.T. Electronic Controls	2.526	119.154
Alen Alarko Enerji Tic. A.Ş.	2.457	-
AHI Carrier FZC	2.028	114.610
Midea Electric Trading (Singapore)	-	387.749
Shanghai Yi Leng Carrier Air Conditioning Equipment Co. Ltd	-	53.764
AHI Carrier South Eastern Europe Airconditioning	-	20.191
Miraco	-	4.881
Total	<u>173.503.272</u>	<u>142.584.415</u>

As of 31 December 2017, remuneration provided to top executives such as the CEO and members of the Board of Directors amounts to TL 1.708.673 (31 December 2016 - TL 1.554.935).

Interest, rents, and similar items received from or paid to the related parties consists of the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Rents received;		
Alsim Alarko San. Tes. ve Tic. A.Ş.	93.854	84.134
Alarko Holding A.Ş.	-	18.505
Total	<u>93.854</u>	<u>102.639</u>
	<u>31 December 2017</u>	<u>31 December 2016</u>
Rent paid;		
Alarko Gayrimenkul Yatırım Ortaklığı A.Ş.	688.984	560.475
Alarko Holding A.Ş.	198.484	146.960
Alarko Fenni Malz. Satış ve İmalat A.Ş.	17.700	16.200
Alsim Alarko San. Tes. ve Tic. A.Ş.	9.000	9.000
Total	<u>914.168</u>	<u>732.635</u>
	<u>31 December 2017</u>	<u>31 December 2016</u>
Commission paid;		
AHI Carrier Romania	34.281	-
AHI Carrier	2.028	63.435
Fact SA Carrier	-	30.042
Total	<u>36.309</u>	<u>93.477</u>
	<u>31 December 2017</u>	<u>31 December 2016</u>
Interest paid;		
Alarko Holding A.Ş.	1.300.815	-
Carrier HVACR Investments B.V.	1.300.815	-
Total	<u>2.601.630</u>	<u>-</u>

As of 31 December 2017 and 2016, there has not been the surety and guarantee given to related parties and received from related parties.

26. Nature and Extent of Risk Arising from Financial Instruments

i. Credit Risk:

Credit risks incurred with respect to different types of financial instruments are as follows:

	Receivables					Bank Deposits	Derivative Instruments	Other*
	Trade Related Party	Other Parties	Other Related Party	Other Parties	Other Parties			
31 December 2017								
Maximum credit risk incurred as of the reporting date (A+B+C+D+E)** (Note 4, 6, 7)								
- Part of the maximum risk taken under guarantee through collaterals	16,841,518	219,393,623	-	203,194	-	68,764,876	-	8,850,880
A. Net book value of financial assets that are neither overdue nor impaired (Note 4, 6 and 7)	-	73,853,001	-	-	-	-	-	1,068,943
B. Book value of financial assets whose conditions are revised, and which otherwise would be considered as overdue or impaired	16,735,059	173,569,333	-	203,194	-	68,764,876	-	8,850,880
C. Net book value of overdue assets that are not impaired (Note 6)	-	-	-	-	-	-	-	-
- Portion taken under guarantee through collaterals	106,459	16,120,406	-	-	-	-	-	-
D. Net book values of impaired assets	-	4,573,869	-	-	-	-	-	-
- Overdue (gross book value)	-	1,514,616	-	-	-	-	-	-
- Impairment (-) (Note 6, 7)	-	24,056,760	-	1,000	-	-	-	-
- Part of the net value taken under guarantee through collaterals	-	(22,572,244)	-	(1,000)	-	-	-	-
- Not overdue (gross book value)	-	1,484,516	-	-	-	-	-	-
- Impairment (-) (Note 6)	-	2,198,364	-	-	-	-	-	-
- Part of the net value taken under guarantee through collaterals	-	(2,168,264)	-	-	-	-	-	-
E. Elements carrying unrecognized credit risk ***	-	30,100	-	-	-	-	-	-
	-	28,189,268	-	-	-	-	-	-

* Consists of cash, cheques received, other liquid assets and financial assets held for trading recognized as cash and cash equivalents.

** In determining the amount of credit risk to be incurred, factors that increase credit reliability, i.e. the guarantees received, are not taken into consideration.

*** Consists of guarantees and sureties given and the collaterals given for import L/C contracts.

Credit risks incurred with respect to different types of financial instruments are as follows:

	Receivables					Bank Deposits	Derivative Instruments	Other*
	Trade Receivables Related Party	Other Parties	Other Related Party	Other Parties	Other Parties			
31 December 2016								
Maximum credit risk incurred as of the reporting date (A+B+C+D+E)** (Note 4, 6, 7)	15.080.060	184.542.233	-	175.419	98.034.974	-	8.939.328	
- Part of the maximum risk taken under guarantee through collaterals	-	68.726.957	-	-	-	-	668.264	
A. Net book value of financial assets that are neither overdue nor impaired (Note 4, 6 and 7)	11.663.994	152.202.977	-	175.419	98.034.974	-	8.939.328	
B. Book value of financial assets whose conditions are revised, and which otherwise would be considered as overdue or impaired	-	-	-	-	-	-	-	
C. Net book value of overdue assets that are not impaired (Note 6)	3.416.066	11.852.439	-	-	-	-	-	
- Portion taken under guarantee through collaterals	-	4.080.817	-	-	-	-	-	
D. Net book values of impaired assets	-	339.472	-	-	-	-	-	
- Overdue (gross book value)	-	21.454.026	-	1.000	-	-	-	
- Impairment (-) (Note 6, 7)	-	(21.124.554)	-	(1.000)	-	-	-	
- Part of the net value taken under guarantee through collaterals	-	329.472	-	-	-	-	-	
- Not overdue (gross book value)	-	298.584	-	-	-	-	-	
- Impairment (-) (Note 6)	-	(288.584)	-	-	-	-	-	
- Part of the net value taken under guarantee through collaterals	-	10.000	-	-	-	-	-	
E. Elements carrying unrecognized credit risk ***	-	20.147.345	-	-	-	-	-	

* Consists of cash, cheques received, other liquid assets and financial assets held for trading recognized as cash and cash equivalents.

** In determining the amount of credit risk to be incurred, factors that increase credit reliability, i.e. the guarantees received, are not taken into consideration.

*** Consists of guarantees and sureties given and the collaterals given for import L/C contracts.

Financial assets past due but not impaired is as follows:

31 December 2017	Receivables				Bank Deposits	Derivative Instruments	Other
	Trade Receivables		Other Receivables				
	Related Party	Other Parties	Related Party	Other Parties			
1-30 days past due	15.804	10.788.530	-	-	-	-	-
1-3 months past due	90.655	887.215	-	-	-	-	-
3-12 months past due	-	4.382.412	-	-	-	-	-
1-5 years past due	-	62.249	-	-	-	-	-
More than 5 years past due	-	-	-	-	-	-	-
Total	106.459	16.120.406	-	-	-	-	-
Portion taken under guarantee through collaterals	-	4.573.869	-	-	-	-	-

31 December 2016	Receivables				Bank Deposits	Derivative Instruments	Other
	Trade Receivables		Other Receivables				
	Related Party	Other Parties	Related Party	Other Parties			
1-30 days past due	26.099	7.805.142	-	-	-	-	-
1-3 months past due	3.366.348	2.847.053	-	-	-	-	-
3-12 months past due	23.619	1.153.398	-	-	-	-	-
1-5 years past due	-	46.846	-	-	-	-	-
More than 5 years past due	-	-	-	-	-	-	-
Total	3.416.066	11.852.439	-	-	-	-	-
Portion taken under guarantee through collaterals	-	4.080.817	-	-	-	-	-

The Company's credit risk basically originates from its trade receivables. The trade receivables are recognized in the statement of financial position, net, after making provisions for doubtful receivables at the required rate, taking into consideration the past experience of the Company and the current economic outlook. The Company collect its significant portion of receivables arising from sales to dealers with a system which is called "Direct Debit System". In this system banks working under an agreement with dealer granted to pay receivables of Company arising from sales within the scope of limits to dealers. Receivables arising from sales are transferred to Company's account in accordance with due dates by the contractual banks. The Company has made provisions for doubtful receivables until the reporting date. The company has a large number of customers, there is no risk of concentration on a particular customer group.

ii. Liquidity Risk

Holding financial instruments may lead to failure of the counterparty to fulfill the terms and conditions of the agreement. The Company management takes measures to prevent such risks through limiting the average risk for the counterparty (except for the related parties) at each agreement, and receiving guarantees if necessary.

The Company creates funds through converting short term financial instruments, i.e. trade receivables, into cash. As of 31 December 2017 and 2016, the excess portions of the Company's liquid assets (current assets – stocks) over its short term payables amount to TL 228.381.297 and TL 219.284.553 respectively.

31 December 2017

	<u>Book Value</u>	<u>Total cash outflows per contract (=I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Maturities per contract						
Non-derivative financial liabilities						
Derivative financial liabilities	-	-	-	-	-	-
Forward contracts	-	-	-	-	-	-
- Cash outflow	335.405	(13.140.215)	(13.140.215)	-	-	-
- Cash inflow	-	13.475.620	13.475.620	-	-	-

Total expected cash outflows (=I+II+III+IV)

Book Value	56.178.582	56.279.117	55.621.917	26.843	630.357	-
Trade payables (Note 6)	53.059.262	53.159.797	53.132.954	26.843	-	-
Other payables (Note 7)	3.119.320	3.119.320	2.488.963	-	630.357	-
Derivative financial liabilities	-	-	-	-	-	-

31 December 2016

	<u>Book Value</u>	<u>Total cash outflows per contract (=I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Maturities per contract						
Non-derivative financial liabilities						
Derivative financial liabilities	-	-	-	-	-	-
Forward contracts	-	-	-	-	-	-
- Cash outflow	(24.812)	(13.673.750)	(13.673.750)	-	-	-
- Cash inflow	-	13.648.938	13.648.938	-	-	-

Total expected cash outflows (=I+II+III+IV)

Book Value	55.318.410	55.399.776	35.784.093	19.111.702	503.981	-
Trade payables (Note 6)	35.480.863	35.562.229	35.357.895	204.334	-	-
Other payables (Note 7)	19.837.547	19.837.547	426.198	18.907.368	503.981	-
Derivative financial liabilities	-	-	-	-	-	-

iii. Interest Rate Risk

The Company is exposed to interest rate risk due to the effect of changes in interest rate on interest bearing assets and liabilities. This interest rate risk is managed by balancing the assets and liabilities which are sensitive to interest risk.

The interest position as of 31 December 2017 and 2016 is set out in the table below:

	<u>31 December 2017</u>	<u>31 December 2016</u>
<u>Financial instruments with fixed interest</u>		
Financial assets		
Time Deposits (Note 4)	63.299.824	94.052.817
<u>Financial Instruments with variable interest</u>		
Financial Assets		
Type B Investment fund (Liquid) (Note 4)	711.651	186.379

As of 31 December 2017 and 2016, there are no financial assets or liabilities with variable interest.

iv. Foreign Currency Risk

Balances of foreign currency transactions originating from operations, investment and financial activities as of the reporting date are stated below. In relation to the foreign currency receivables and payables, the Company can be exposed to foreign currency risk upon changes in foreign currency exchange rates. The foreign currency risk is controlled through continuous analysis and follow-up of the foreign exchange position.

As of 31 December 2017 and 2016, the Company's assets and liabilities in foreign currency consist of the following:

	FOREIGN CURRENCY POSITION TABLE									
	31 December 2017					31 December 2016				
	TL Equivalent (Functional currency)	USD	EUR	GBP	Other	TL Equivalent (Functional currency)	USD	EUR	GBP	Other
1. Trade Receivables	29,443,492	2,310,273	4,590,715	-	-	23,919,413	2,147,405	4,410,433	-	-
2. Monetary Financial Assets (Cash, Bank accounts included)	26,089,929	2,493,797	3,694,735	-	-	52,931,107	6,512,864	8,074,347	12,970	-
3. Current Assets (1+2)	55,533,421	4,804,070	8,285,450	-	-	76,850,520	8,660,269	12,484,780	12,970	-
4. Non-current Assets	-	-	-	-	-	-	-	-	-	-
5. Total Assets (3+4)	55,533,421	4,804,070	8,285,450	-	-	76,850,520	8,660,269	12,484,780	12,970	-
6. Trade Payables	31,367,553	5,114,054	2,645,861	25,681	-	15,244,735	2,427,956	1,806,052	-	-
7. Financial Liabilities	-	-	-	-	-	-	-	-	-	-
8. Other Monetary Liabilities	4,829,446	912,663	307,158	-	-	3,835,992	158,668	883,476	-	-
9. Short term Liabilities (6+7+8)	36,196,999	6,026,717	2,953,019	25,681	-	19,080,727	2,586,624	2,689,528	-	-
10. Long term Liabilities	-	-	-	-	-	-	-	-	-	-
11. Total Liabilities (9+10)	36,196,999	6,026,717	2,953,019	25,681	-	19,080,727	2,586,624	2,689,528	-	-
12. Net Asset / (Liability) Position of Unrecognized Derivative Instruments in Foreign Currency	(13,140,215)	(850,000)	(2,200,000)	-	-	(8,127,737)	325,930	(2,500,000)	-	-
13. Net Foreign Currency Asset / (Liability) Position (5-11+12)	6,196,207	(2,072,647)	3,132,431	(25,681)	-	49,642,056	6,399,575	7,295,252	12,970	-
14. Monetary Items Net Foreign Currency Asset / (Liability) Position (1+2+4-6-7-8)	19,336,422	(1,222,647)	5,332,431	(25,681)	-	57,769,793	6,073,645	9,795,252	12,970	-
15. Total Fair Value of Financial Instruments Used for Foreign Currency Hedging	335,405	-	-	-	-	(24,812)	-	-	-	-
16. Export (Note 17)	62,007,699	4,806,941	10,531,275	-	1,213,125	51,051,628	3,793,507	11,730,595	-	988,826
17. Import	232,553,790	33,654,819	27,113,035	206,119	87,429	204,990,948	35,361,089	27,728,667	1,543,161	81,714

The Company's currency risk analysis is set out below;

Foreign Currency Sensitivity Analysis Chart				
31 December 2017				
Profit / Loss			Equity	
	Value increase in foreign currency	Loss in value of foreign currency	Value increase in foreign currency	Loss in value of foreign currency
When USD changes by 10% against TL				
1- Net assets /liabilities in USD	(461.170)	461.170	-	-
2- Portion hedged from USD risk (-)	-	-	-	-
3- USD Net Effect (1+2)	(461.170)	461.170	-	-
When Euro changes by 10% against TL :				
4- Net assets/liabilities in Euro	2.407.859	(2.407.859)	-	-
5- Portion hedged from Euro risk (-)	-	-	-	-
6- Euro Net Effect (4+5)	2.407.859	(2.407.859)	-	-
When other foreign currencies change by 10% against TL:				
7- Other foreign currency assets / liabilities, net	(13.047)	13.047	-	-
8- Portion hedged from risk of other currencies (-)	-	-	-	-
9- Other foreign currency assets Net Effect (7+8)	(13.047)	13.047	-	-
TOTAL (3+6+9)	1.933.642	(1.933.642)	-	-
31 December 2016				
Profit / Loss			Equity	
	Value increase in foreign currency	Loss in value of foreign currency	Value increase in foreign currency	Loss in value of foreign currency
When USD changes by 10% against TL				
1- Net assets /liabilities in USD	2.137.437	(2.137.437)	-	-
2- Portion hedged from USD risk (-)	-	-	-	-
3- USD Net Effect (1+2)	2.137.437	(2.137.437)	-	-
When Euro changes by 10% against TL :				
4- Net assets/liabilities in Euro	3.633.941	(3.633.941)	-	-
5- Portion hedged from Euro risk (-)	-	-	-	-
6- Euro Net Effect (4+5)	3.633.941	(3.633.941)	-	-
When other foreign currencies change by 10% against TL:				
7- Other foreign currency assets / liabilities, net	5.602	(5.602)	-	-
8- Portion hedged from risk of other currencies (-)	-	-	-	-
9- Other foreign currency assets Net Effect (7+8)	5.602	(5.602)	-	-
TOTAL (3+6+9)	5.776.980	(5.776.980)	-	-

v. Capital Risk Management

For proper management of capital risk, the Company aims;

- To maintain continuity of operations so as to provide earnings to partners and benefits to other shareholders, and
- To increase profitability through determining a service pricing policy that is commensurate with the level of risks inherent in the market.

The Company determines the amount of share capital in proportion to the risk level. The equity structure of the Company is arranged in accordance with the economic outlook and the risk attributes of assets.

The Company monitors capital management by using the debt/equity ratio. This ratio is calculated by dividing the debt, net, by the total share capital. The net debt is calculated by deducting the value of cash and cash equivalents from the total debt (the sum of short and long term liabilities stated in the statement of financial position). The total share capital is the sum of all equity items stated in the statement of financial position.

	<u>31 December 2017</u>	<u>31 December 2016</u>
Total debt	109.831.578	101.092.840
Cash and Cash Equivalents (-)	<u>(77.615.756)</u>	<u>(106.974.302)</u>
Net debt	32.215.822	(5.881.462)
Total Equity	<u>362.410.723</u>	<u>343.308.699</u>
Debt/Equity ratio	<u>9%</u>	<u>-2%</u>

27. Financial Instruments

Fair value of financial instruments

Fair value is defined as the price that will be collected from the sale of an asset or payable that be transferred between market participants at measurement date of an ordinary course transactions.

The estimated fair values of the financial instruments have been determined by the Company using available market information and appropriate valuation methods. However, estimates are necessary in interpreting market data to determine fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange.

Fair value hierarchy table

The Company classifies the fair value measurement of each class of financial instruments according to the source, using the three-level hierarchy, as follows :

Level 1 : Market price valuation technique for the determined financial instruments traded in markets (unadjusted)

Level 2 : Other valuation techniques includes direct or indirect observable inputs.

Level 3 : Valuation techniques does not contains observable market inputs.

Fair value hierarchy table as of December 31, 2017 is as follows

Financial assets carried fair value in statement of financial position

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Derivative Financial Instruments	-	<u>335.405</u>	-
Total	-	<u>335.405</u>	-

Fair value hierarchy table as of December 31, 2016 is as follows :

Financial liabilities carried fair value in statement of financial position

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Derivative Financial Instruments	-	<u>24.812</u>	-
Total	-	<u>24.812</u>	-

28. Events After the Reporting Period

The termination indemnity upper limit which stood at TL 4.732,48 as of 31 December 2017 has been increased to TL 5.001,76 with effect from 1 January 2018. (31 December 2016 - TL 4.297,21)

29. Other Issues Materially Affecting the Financial Statements or Requiring Disclosure for a Proper Interpretation and Understanding of the Financial Statements

Insurance totals of assets with respect to the periods are as follows;

31 December 2017	315.367.631
31 December 2016	286.090.510

CENTER

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Phone: (0 212) 310 33 00 - 227 52 00 / Pbx

Fax: (0 212) 227 04 27 - 260 71 78

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Trade Registry Number: İstanbul, 85696

Mersis No: 0048 0036 1840 0015

PRODUCTION

The Main Manufacturing Plant

GOSB-Gebze Organize Sanayi Bölgesi Şahabettin Bilgisu Cad.

41480 Gebze - KOCAELİ

Phone: (0 262) 648 60 00 Fax: (0 262) 648 62 36

The Radiator Manufacturing Plant

Dudullu Organize Sanayi Bölgesi Esenkent 3. Cad. No: 2

P.K. 37 81232 Ümraniye - İSTANBUL

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SALES OFFICES

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GOSB-Gebze Organize Sanayi Bölgesi Şahabettin Bilgisu Cad.

41480 Gebze - KOCAELİ

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Şehit Fethi Bey Cad. No: 55 Kat: 13 35210 Pasaport - İZMİR

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Adana

Ziyapaşa Bulvarı Çelik Apt. No: 19/5-6 Kat: 1 01130 ADANA

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Antalya

Mehmetçik Mah. Aspendos Bulvarı No: 79 / 5 07160 ANTALYA

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TOTALINE İSTANBUL ÜMRANIYE

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TOTALINE İSTANBUL İKİTELLİ

İkitelli Organize Sanayi Bölgesi S.S. Eskoop Sanayi Sitesi

İşletme Kooperatifi B2 Blok No: 150-152 34490 Başakşehir - İSTANBUL

Phone: (0 212) 671 53 04 - 671 53 07 Fax: (0 212) 671 53 28

TOTALINE ANKARA

İvedik Organize Sanayi Bölgesi Melih Gökçek Bulvarı 1445 Sk. No: 26

06374 Ostim - ANKARA

Phone: (0 312) 472 43 04 Fax: (0 312) 472 43 75

TOTALINE İZMİR

2823 Sok. No: 129 / B Otoplaza 35110 Halkapınar - İZMİR

Phone: (0 232) 459 18 17 / 4 Lines Fax: (0 232) 459 26 29

TOTALINE ANTALYA

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