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**INDEPENDENT AUDIT REPORT  
REGARDING ANNUAL ACTIVITY REPORT OF BOARD OF DIRECTORS**

**To Board of Directors of,  
Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş.**

**Audit Report of Annual Activity Report belonging to Board of Directors within the framework of Independent Audit Standards**

We audited the annual activity report of the accounting period ending on the date of 31st December 2016 belonging to Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş. and its affiliated companies (from now on, will be referred as “Group” all together)

*Responsibility of the Board of Directors regarding Annual Activity Report*

Group management, in compliance with 514<sup>th</sup> provision of Turkish Commercial Code (“TTK”) no. 6102 and “Notification of Principles related with Financial Reporting in Capital Markets” (“Notification”) no 14.1, is responsible with preparing annual activity reports in a way that is consistent with consolidated financial statements and in a way that reflects the truth, and responsible with an internal audit that seems to be required for preparation of an activity report with such qualifications.

*Responsibility of the Independent Auditor*

Our responsibility is to give opinion on whether the financial information within this activity report is consistent with the consolidated financial statements of the Group, which is the subject of the independent audit report dated 20<sup>th</sup> February 2017, and whether it reflects the truth, on the basis of independent audit we carried out on Company’s activity report within the framework of TTK’s 397<sup>th</sup> provision and the Notification.

The independent audit, which we performed, was carried out in compliance with Independent Audit Standards (“BDS”), which is a part of the Turkish Audit Standards published by Public Oversight, Accounting and Auditing Standards Authority (“KGK”). These standards requires being in compliance with ethical provisions and the independent audit being planned in a way that creates reasonable reliability on reflecting truth and the financial information within the activity report being consistent with consolidated financial statements.

Independent audit consists of audit procedures with the purpose of acquiring audit evidence about historical financial information. The selection of the procedure depends on occupational reasoning of the independent auditor.

We believe that the independent audit evidence acquired during our independent audit forms an adequate and suitable basis for the formation of our opinion.

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@2016. Please contact with Deloitte Turkey (Deloitte Touche Tohmatsu Limited member company).

## **Deloitte**

### ***Opinion***

According to our opinion, financial information found within the annual activity report of Board of Directors is consistent with consolidated financial statements and reflects the truth with all important aspects.

### **Other Obligations due to Regulations**

Pursuant to 3<sup>rd</sup> sub-section of 402<sup>nd</sup> provision of TTK; within the framework of BDS 570 “Operation Continuity”, there isn’t an essential matter that needs to be reported in relation to the operation being unable to continue its activities in foreseeable future.

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

Zere Gaye Şentürk  
Cap Auditor (Responsible)

Istanbul, 20<sup>th</sup> February 2017

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**(KORDSA GLOBAL INDUSTRIAL FIBER AND CORD FABRIC INDUSTRY AND TRADE INC.)**  
**ACTIVITY REPORT OF 1<sup>st</sup> JANUARY 2016 – 31<sup>st</sup> DECEMBER 2016 BOARD OF DIRECTORS**

**1. General Information:**

a) **Accounting Period of the report:** 1<sup>st</sup> January 2016 – 31<sup>st</sup> December 2016

b) **Trade title, trade registry number, contact information of headquarter and branches and address of the web site of the Company:**

**Trade Title** : Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret Anonim Şirketi

**Quarter Name** : Sabancı Center Kule:2 Kat:17 34330 4.Levent, Beşiktaş / ISTANBUL - TURKEY

**Contact Address** : Sanayi Mahallesi Teknopark Bulvarı No:1/1B 34906 Pendik / ISTANBUL - TURKEY

**Telephone** : 0216-300 10 00

**Fax** : 0216-300 10 01

**Addresses of Production Facilities:**

**Factory:** Alikahya Fatih Mahallesi Sanayi Caddesi No:90 İZMİT 41310/KOCAELİ – TURKEY

**Teknopark Branch:** Sanayi Mahallesi Teknopark Bulvarı No:1/1B 34906 Pendik/ISTANBUL - TURKEY

Information regarding our production facility sites abroad can be found at our internet site.

**E-Mail Address** : info@kordsa.com

**Web Address** : www.kordsa.com

**Registration Date** : 17.08.1973 Kordsa Kord Bezi Sanayi ve Ticaret A.Ş.

12.04.2000 Kordsa Sabancı Dupont Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş.

09.12.2005 Kordsa Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş.

30.11.2006 Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş.

**Mersis No** : 0577-0053-5640-0013

**Trade Registry and Number** : T.R. Registry of Commerce Istanbul – 123648

**Tax Office and Number** : Büyük Mükellefler (Major Taxpayers) – 577 005 3564

c) **Organization, capital and partnership structures of the Company and amendments regarding these within the fiscal period:**

Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş. (“Company” or “Kordsa”), which was founded in Kocaeli Izmit in 1973, is active as a subsidiary of Hacı Ömer Sabancı Holding A.Ş. (“Sabancı Holding”)

**Kordsa’s Major Business Activity:**

Manufacturing of yarns found in structure of tires and forming the main frame; manufacturing of industrial fabric and industrial cord found in the structure of rubber and plastic materials such as transmission belts, V-belts, rubber hoses; manufacturing of heavy denier fiber and connection fabrics; transformation of any kinds of yarns into tire cord fabric, fabric used in mechanical rubber goods, pilot fabrics and other rubber reinforcement materials, and to market thereof; to produce and to carry out all kinds of marketing, sales, importation and exportation of Nylon 6, Nylon 6.6 and PET (Polyethylene-terephthalate) HMLS (High Modulus Low Shrinkage) polyester and rayon heavy decitex yarn to be used in auto tires and mechanical rubber products; and

Participating in capital and management of domestic and foreign companies founded and/or to be founded for the purpose of working on any kinds of business subject particularly commercial, industrial, infrastructure services, transportation services, mining, touristic, construction subjects; to make them to be managed by creating competing conditions that will respond to needs and in favor of companies whose capitals and management it participated in and more efficiently, rational and profitably depending on the same management and behavior relations and in accordance with the current conditions and other works written in the text of amendment to the main contract registered on the date of 1.4.2013,

### **Capital and Partnership Structure:**

Registered Capital : 500.000.000 TL  
Paid Capital : 194.529.076 TL

### **Partners with more than 10% of the Company Capital:**

There is no real person ultimate controlling shareholder of the Company. Whole of Company stocks (shares) are registered. Company's stocks have been traded at Borsa İstanbul A.Ş. (BİST) since 1991. The Company can not track the share transfer of the shareholders representing its public capital (28,89%). Company is only informed 1 shareholder who is owner of stocks/ dividends representing other capital of the Company (71,11%).

Shareholders that keeps shares of Kordsa and their share rates are as follows:

Share Owner	Number of Shares	Capital Ratio (%)	Share Lot	Share Amount Nominal (TL)
				(1 Share 1 Kr)
Hacı Ömer Sabancı Holding A.Ş.	13.832.761.401	71,11%	Registered	138.327.614,01
Other	5.620.146.199	28,89%	Registered	56.201.461,99
<b>Total</b>	<b>19.452.907.600</b>	<b>100,00%</b>		<b>194.529.076,00</b>

### **ç) Privileged Shares, Voting Rights of the Shares:**

According to Company Articles of Association, each share has a single voting right at the General Assembly and there is no privilege in right to vote. There is no other company that our company has mutual shareholding benefits. There is no provision restricting stock transfer in the articles of association. Share transfers among partners are performed within the framework of Turkish Commercial Code and Capital Market Law provisions.

### **d) Management body, its senior executives and number of personnel:**

#### **Board of Directors:**

NAME AND SURNAME	DUTY	BoD Membership	BEGINNING	END
<b>Mehmet HACIKAMİLOĞLU</b>	CHAIRMAN	21.04.2016	21.04.2016	MARCH 2018
<b>Neriman ÜLSEVER</b>	DEPUTY CHAIRMAN	16.08.2011	24.03.2015	MARCH 2018
<b>M. Mesut ADA*</b>	MEMBER	16.12.2016	16.12.2016	MARCH 2018
<b>Barış ORAN</b>	MEMBER	24.06.2016	24.06.2016	MARCH 2018
<b>Fezal OKUR ESKİL</b>	MEMBER	24.03.2015	24.03.2015	MARCH 2018
<b>Atıl SARYAL</b>	INDEPENDENT MEMBER	18.04.2012	24.03.2015	MARCH 2018
<b>Hüsnü Ertuğrul ERGÖZ</b>	INDEPENDENT MEMBER	18.04.2012	24.03.2015	MARCH 2018

*\*Peter Charles Hemken carried out this duty until the date of 16<sup>th</sup> December 2016.*

#### **Senior Management:**

NAME AND SURNAME	DUTY
<b>Cenk ALPER</b>	General Director
<b>Ali ÇALIŞKAN</b>	Assistant General Director, Europe, Middle East and Africa
<b>Fatma Arzu ERGENE</b>	Assistant General Director, Assistant Financial Affairs and General Director, South America
<b>İbrahim Ö. YILDIRIM</b>	Assistant General Director, Technology and Composite Business Unit Leader
<b>M. Zeki KANADIKIRIK</b>	Assistant General Director, Asia Pacific
<b>James T. DEL PIANO</b>	Assistant General Director, North America
<b>Abdülkadir TOPLU</b>	Global Supply Chain Director
<b>Vahe HANAMİRİAN</b>	Global Customers and Marketing Director
<b>Murat Oğuz ARCAN</b>	Business and Market Development Director and Construction Business Unit Leader
<b>Nazan KESKİN</b>	Global Human Resources Director

**CORPORATE GOVERNANCE NOTIFICATION (II-17.1), CORPORATE GOVERNANCE PRINCIPLES, 2.2. Activity Report,**

**2.2.2. a)**

Background information of the Board of Directors Members and executives, information regarding the tasks that they carry outside the company and declaration of the Board of Directors Members related with their independence can be found at [www.kordsa.com](http://www.kordsa.com) address and 5.1. provision of 31<sup>st</sup> December 2016 Corporate Governance Principles Compliance Report.

**2.2.2. b)**

Members of the committees formed within the structure of the Board of Directors, their meeting frequency, working principles including activities carried out, evaluation of the board of directors related with efficiency of the committees is included on 5.3. provision of 31<sup>st</sup> December 2016 Corporate Governance Principles Compliance Report.

**2.2.2. c)**

Number of meetings for Board of Directors within the year and attendance conditions of Board of Directors Members to meetings in question is included on 5.2. provision of 31<sup>st</sup> December 2016 Corporate Governance Principles Compliance Report.

**Number of Personnel (as of the date of 31.12.2016):**

Country	Number of Personnel (Including sub-contractors)
Turkey	1.371
USA	310
Brazil	417
Thailand	386
Indonesia	1.294
China	4
<b>Total</b>	<b>3.782</b>

**Education Level of White-Collared Employees (%)**

3,1% Doctorate  
20,1% Post Graduate  
52,3% Bachelor's Degree  
10,1% Two-Year Degree  
14,4% High School and below

**Collective Contract Applications:**

Provisions of Collective Labor Agreement of XXIV. Term Group, signed on the date of 3<sup>rd</sup> June 2016, between Türkiye Tekstil Örne ve Giyim Sanayii İşçileri Sendikası (TEKSİF) (Turkey Textile Weaving and Clothing Industry Laborers Union), that our unionized employees are members, and Türkiye Tekstil Sanayii İşverenleri Sendikası (Turkey Textile Industry Employers Union), that our Company is a member.

**e) If any, information on transactions that management body members make with the Company on behalf of themselves or another person within the frame of permission given by company general board and their activities within the scope of prohibition of competition:**

Our Chairman and Members of the Board of Directors are liberated by General Assembly to make treatments in the directions of 395<sup>th</sup> and 396<sup>th</sup> provisions of Turkish Commercial Code. In 2016, members of the Company's board of directors did not make any transactions with the company and/or didn't embark on an enterprise that can be a competitor in the same activity fields.

## **2. Financial rights provided to management body members and senior executives:**

Pursuant to 4.6.5. provision of Corporate Governance Principles, remuneration made and all other benefits given to Board of Directors members and senior executives are shared with public in annual activity report. However, this announcement does not include names of the recipients. The article 5.6. of the Corporate Governance Compliance Report covers this issue, also the note 26 in the explanations about the Audited Consolidated Financial Statements provides related details.

## **3. Research and Development Studies of the Company:**

### **Innovation - Technology**

KORDSA, which turns the concepts of "Innovation" and "Excellence" into company culture, develops new products, processes and methods at Research and Development Center in Kocaeli, and takes the fundamental steps to industrialize these new products and manufacturing processes. Kordsa R&D Center was officially approved as "Research and Development Center" on 24<sup>th</sup> April 2009 as a result of the evaluations made within the framework of "Law regarding the Support for Research and Development Activities" No. 5746. Because of the incentives it benefits from due to the document in question, each year starting from the activity period, it goes through an audit of arbitrators and commission appointed by the relevant Ministry, and it has been going through these audits with success since its foundation. As a result of the audits, it is decided that the incentives should continue with a period of 1 more year. The last time, 72 projects of Kordsa were evaluated for R&D qualifications in November 2016, and an approval was given for 8<sup>th</sup> activity period.

Kordsa made an application of R&D Center for Composite Technologies Center of Excellence in Teknopark Istanbul in November 2016. As a result of the audits carried out in December, the official approval for its second R&D Center was granted by Ministry of Science, Industry and Technology at commission meeting dated 10<sup>th</sup> January 2017. In the R&D Centers Performance Evaluation carried out by Ministry of Science, Industry and Technology, including all R&D Centers of Turkey, Kordsa was ranked third in overall, and was listed as the most successful R&D Center of textile industry for the 4<sup>th</sup> year in a row. It earned an award at UTIB Textile Innovation League held in May this year.

For projects which are currently in project portfolio of Kordsa; 69 people are working at R&D department and 17 people at Composite Technologies Center of Excellence as of 31<sup>st</sup> December 2016. Employees of R&D unit have degrees of "doctorate and higher (4%)", "postgraduate (33%)", "bachelor's degree (18%)", an employees of Composite Work Unit have degrees of "doctorate and higher (18%)", "postgraduate (35%)" and "bachelor's degree (12%)".

Sales of news products reached approximately USD 42M in 2016, in which some of the products within new product portfolio completed their 'life cycle' and started to move to the range of conventional products. New products of Kordsa and its intellectual properties created by more than 400 patents reinforced its leadership within the markets of tire reinforcement, construction reinforcement and composite technologies. In 2016, Kordsa's number of patent applications, most of which are international, totaled 407; while 121 of these are registered, 247 of them is still under ongoing examination.

The Company still works on new product brands. New products such as Twixtra, Monolyx, Capmax, Hartech and Kratos brands developed since the foundation of R&D Center to differentiate the Company from its competitors. In addition to those, The Reinforcer brand was also added to company structure in 2015.

Industrial design registration with green cord fabric was acquired in 2016.

A concrete laboratory was founded in order to increase the speed of new product development of Construction Reinforcement Business Unit.

Composite Technologies Center of Excellence, jointly established by Kordsa and Sabanci University, became operational in 2016, which is an innovative collaboration model which brought industry and university. All processes including postgraduate education, fundamental research, applied research, product development, prototype production, entrepreneurship and commercialization activities in the field of composite materials technologies will be carried out at the Center; doctorate students and post-doctorate researchers, academicians, incubation companies, researchers, production engineers and human resources will work under the same roof



simultaneously. As a result of the works carried out in R&D Center, Composite Reinforcement Business Unit realized the carbon fiber fabric , prepreg is manufactured from this fabric.

### **Labor Health, Labor Security and Environment**

Security and health of employees are considered to be essential values by Kordsa. Moreover, there are strictly applied domestic and national regulations that aim to promote a safer workplace. In an attempt to understand and comply with these regulations, continuous training and regular safety audits are of great importance. All activities carried out in Kordsa are prioritized as “Worker Health”, “Work Safety-Environment” and “Quality”.

At Kordsa, it is believed that all work accidents and work-related diseases are preventable. So, all employees, who came to the work place even for a short-term duty, is given training on subjects of worker health, work safety and environment, and the scope of safety training is broadened according to identified training requirements.

Another fundamental value of Kordsa is sustainable growth. Our aim with sustainable growth is to reduce our impact on the environment, create social values and be in interaction with our shareholders while carrying out our operations. We assure to all our partners, including all our employees, customers, shareholders and public that we will carry out our operations by being sensitive towards the environment.

There isn't any lawsuit against the company in 2016 due to any environment management and its impact.

### **Application Rules**

#### **1. High performance standards, business excellence**

Kordsa will follow the highest standards for safe operation of its facilities, and protection of the environment, personnel and the location of society in which its customers are. Kordsa will reinforce its work by making safety, health and environment protection issues an indispensable part of all its business activities and by continuously making effort on the path to compliance of its business activities to expectations of the public opinion.

#### **2. Zero injury, diseases and accident target**

Kordsa believes that all injuries and occupational diseases, and also the accidents related with work safety and natural environment are preventable and its objective for all of those is set them to zero. Kordsa evaluates the environmental impact of all facilities that it offers to construct, it will design, construct, operate and maintain all of its facilities, transportation equipment in a manner that is safe, acceptable and in a way that will protect the natural environment for the settlements they are located in.

Kordsa will be prepared against emergency situations and will provide leadership to settlements that it is in, in order to help preparations for emergency.

#### **3. Zero waste and emissions target**

Kordsa will work with the aim of zero waste production at its source. Materials will be used again and they will be recycled in order to reduce the operation and disposal needs to minimum. At all production facilities, the waste will be processed and disposed in a secure and responsible manner. Kordsa will move towards zero emission, and while doing so, it will give priority to the fight with emissions that causes the highest potential risk to health or environment.

For cases, in which past applications created requirements for correction, Kordsa will also fix these.

#### **4. Protecting energy and natural sources, enforcing living quarters**

Kordsa is bound to highest standards for safe operation of all its facilities, and protection of its personnel, customers and the environment.

### **Foreign Assignments**

As a global company, carrying knowledge from Kordsa's one operation to another of different maturity, and providing different experience opportunities to its employees are among the top HR

objectives of the corporation. In this context, our employees are tasked at Kordsa companies in different countries for short-term or long-term duties within the abroad appointment system.

### **Business Ethics Rules**

Kordsa activities are carried out in compliance with Kordsa Business Ethics Rules accepted by the board of directors. Business Ethics Rules regulate our Company's relations with customers, employees, shareholders, suppliers, business partners, competitors, environment and society and they are collected under four main titles of legal responsibilities, honesty, confidentiality and conflict of interests.

There is an Ethics Rules Consultant appointed for each of our facilities that is responsible with application of Kordsa Business Ethics Rules as required.

### **Market Development Activities**

In the context of 2016 market development activities, various activities are carried out in three lines of business, in which Kordsa is active, in order to increase brand awareness and visibility, gain new customers and develop its position at the market. Activities to raise Kordsa's brand awareness are to attend to international fairs, publish articles and advertisements in international industrial magazines, and send newsletters via e-mails. Thank to these activities, Kordsa products are introduced, business contacts are made with potential customers as well as current customers. Kordsa senior management attended to important industrial conferences in different regions of the world as speakers in order to share their know-how and experience.

### **Communication activities carried out in the period of 1<sup>st</sup> January 2016 – 31<sup>st</sup> December 2016:**

- Annual leaders meeting of the Kordsa was held.
- Kordsa reinforced the future with school renewal project in Izmit Kandira region. (January 2016)
- Kordsa Composite Technologies team held open innovation workshop with Aachen University. (February 2016)
- Kordsa CEO Cenk Alper attended in 10th European Industrial Fiber Symposium. (February 2016)
- Kordsa attended to 13th International Istanbul Fiber Fair. (February 2016)
- Kordsa's first "Sustainability Report" won golden prize in both chemistry and material industry at LACP Vision Awards competition, which is one of the world's most prestigious annual report competitions held by League of American Communications Professionals. Also, it took place among the top 50 report. (February 2016)
- Kordsa CFO Arzu Ergene was chosen as one of the "Turkey's Most Effective 50 Financial Leaders | Strongest 50 CFO" that was carried out in cooperation of Fortune Turkey and Data Expert (February 2016)
- Kordsa attended to Tire Technology 2016 fair. At the same fair, Kordsa Academy gave a training on "tire reinforcement materials". (February 2016)
- Kordsa attended to JEC World 2016 fair that is the most important event of composite industry (8-10 March 2016)
- 2016 vision meeting was held together with economy press. (March 2016)
- Kordsa's Assistant General Manager Ali Çalışkan, responsible from Europe, Middle East and Africa was chosen for KalDer (Turkish Quality Association) Board of Directors of Türkiye Kalite Derneği (Turkish Quality Association) (KalDer) at 27<sup>th</sup> Ordinary General Assembly (April 2016)
- Kordsa CEO Cenk Alper attended to 14<sup>th</sup> Quality and Success Symposium as a speaker. (April 2016)
- Trakya (Thracian) University project team, which is supported by Kordsa Composite Technologies business unit, went on a tour on the Balkans with their composite vehicle. (15<sup>th</sup> April 2016)
- Assistant General Director and Composite Business Unit Leader İbrahim Özgür Yıldırım, who is responsible with Kordsa Technology, made a speech at Orta Doğu Teknik Üniversitesi (Middle East Technical University) (May 2016)

- Kordsa was rewarded with grand award at Stars of Exportation Award Ceremony. (May 2016)
- An 18-wheeler that carries Kordsa products ended in compliance with brand identity got on its way to Europe as Reinforcement Lorry. (May 2016)
- Kordsa's Assistant General Director Ali Çalışkan, who is responsible with Europe, Middle East and Africa attended as a speaker to Istanbul Chamber of Commerce's "Indonesia: Shining Star of Asia" event held at Odakule. (May 2016)
- Presentation of Blue Ocean Strategy was made. (May 2016)
- Kordsa was deemed worthy of an award by taking a place among "Top 12 Company" in Turkey Textile Innovation League formed by Uludağ Tekstil İhracatçıları Birliği (League of Uludag Textile Exporters). (12<sup>th</sup> May 2016)
- Kordsa was in Berlin as main sponsor and speaker of 2nd Passenger Vehicle Tires Development Platform. (12 - 13 May 2016)
- This year for the 2<sup>nd</sup> time, Kordsa earned the right for winning the "Corporate Awareness" reward, which is organized by Türkiye İç Denetim Enstitüsü (TİDE) (Turkish Internal Audit Institute) for the 6<sup>th</sup> time. (24<sup>th</sup> May 2016)
- Kordsa attended to "Rubber of Future Conference", which is organized by Rubber Journal that is one of the most important publications of rubber industry, as platinum sponsor and speaker. (May 2016)
- Kordsa CEO Cenk Alper came together with Yaşar University students at first and then with Manisa Genç İş Adamları Derneği (Manisa Young Businessmen Association) with the theme of "Reinforcement of the Future". (May 2016)
- Kordsa attended to Santek 2016 3<sup>rd</sup> East Marmara Industry and Technology Fair, which is one of the most important fairs of the industry. (May 2016)
- ITU Fantastic Four Squad, who competes with a canoe made by using Kratos, a product of Kordsa Construction Reinforcement Technologies, won the race of Interuniversity Concrete Canoe Race. (May 2016)
- Kordsa, who provided carbon fabric and prepreg support to Yıldız Technical University Racing team, which will attend to Formula Student Competition that is the biggest engineering competition held between university students on a global scale, reinforced the seat and body of the vehicle. YTU Racing project team carried out the launch of the new vehicle on 14<sup>th</sup> June 2016 at Besiktas Naval Museum.
- Güler Sabancı, Chairman of the Sabancı Holding Board of Directors, visited the Composite Technologies Center of Excellence. (18<sup>th</sup> June 2016)
- According to research carried out by Great Place to Work Institute among 36 companies in Bahia state of Brazil, Kordsa came 7<sup>th</sup> by outdistancing many companies in the category of "Best Employers". (June 2016)
- Kordsa attended to Innovative Tire held in Amsterdam as main sponsor and speaker. (June 2016)
- As the result of quarterly evaluations made by Borsa Istanbul (Istanbul Stock Exchange) based on daily trading volume, Kordsa was included in BİST 50 Index by the date of 1<sup>st</sup> July 2016.
- Kordsa sent 2<sup>nd</sup> volume of digital bulletins with privatized content for each customer in order to strengthen its communication with its customers. (August 2016)
- Kordsa reinforced 3<sup>rd</sup> Bosphorus Bridge and North Marmara Highway Projects, which are among the most important projects of Turkey. (August 2016)
- Sabancı Community, in which Kordsa is also included, made a donation to 15<sup>th</sup> July Solidarity Campaign. (August 2016)
- Kordsa was visited by visitors from Efficiency General Directorate affiliated to Science and Industry Ministry, within the scope of Total Productive Maintenance (TPM) program. (August 2016)
- Wind vehicle reinforced by Kordsa competed in World's biggest sustainability race of "Racing Aeolus Den Helder" in Holland. (18 - 20 August 2016)
- Composite Technologies Center of Excellence, whose foundation was laid at Istanbul Teknopark in December 2014 by cooperation of Kordsa and Sabancı University, was opened with the attendance of Prime Minister esteemed Binali Yıldırım, Minister of Science, Industry

- and Technology esteemed Dr. Faruk Özlü, Minister of Development esteemed Lütfi Elvan, Minister of Transport, Maritime Affairs and Communication esteemed Ahmet Arslan and Minister of National Defence esteemed Fikri Işık. (20<sup>th</sup> August 2016 Saturday)
- Kordsa received awards in many different categories during the award ceremony held by Great Place to Work Institute. (September 2016)
  - Kordsa CEO Cenk Alper went live on Bloomberg Market Line. (9<sup>nd</sup> September 2016)
  - Employees of Kordsa at Chattanooga operation in United States of America carried out a fund raising event for “Susan G. Komen Race for the Cure Foundation” that is active in field of breast cancer awareness. (September 2016)
  - Kordsa published 2015 Sustainability Report. (September 2016)
  - Kordsa CEO Cenk Alper attended to Akbank Family Companies Academy, which is brought to life by Sabanci University and Akbank cooperation, as a speaker. (September 2016)
  - Kordsa engaged in global mentorship and global rotation programs for 2017 within the scope of New Generation Global Development Programs. (September 2016)
  - Kordsa published 5<sup>th</sup> issue of “The Reinforcer” (September 2016)
  - With its R&D works and inventions that creates value, Kordsa is deemed worthy for 3<sup>rd</sup> Place Award for Best R&D Center among all industries and The Best R&D Center within textile industry at “Private Industry R&D Centers Summit” held by Science, Trade and Technology Ministry. (September 2016)
  - Kordsa was listed among Best Employers for 7<sup>th</sup> time in Thailand, and it was granted with “Superior Employer-Employee Relations and Welfare Level” Award. (September 2016)
  - Kordsa attended to Quality Congress as both panelist and sponsor. Cenk Alper, who was a speaker at “Economical Perspective – From ‘Being in Development’ to ‘Being Developed’” panel, shared their technology exportation experience all over the World and technology leadership of reinforcement brand Kordsa, which has been its “New Normal” for many years. (September 2016)
  - Kordsa attended to Composites Europe, which has been the most important meeting point of Europe that hosts thousands of visitors each year in field of composite materials and equipment. (November 2016)
  - Mr. Wardana, Ambassador of Indonesia for Turkey made a visit to Kordsa as thanks for their economical contribution to the region. In October, Kordsa received award of Exportation Award by Indonesian Ministry of Exportation and Trade due to its contribution to economic development. (November 2016)
  - Kordsa attended to High – Tech Port Fair. Within the fair that hosts latest developments in defense and aviation industries; Composite vehicle seats and rims reinforced by prepregs manufactured with Kordsa technology and vehicle tires reinforced with Kordsa technology were exhibited. (November 2016)
  - Kordsa entered to BIST Sustainability Index that includes 43 companies, which are traded at Istanbul Stock Exchange and whose corporate sustainability performances are top level. (November 2016)
  - Kordsa CEO Cenk Alper attended to Industry 4.0: Business Models of Tomorrow panel organized within the scope of Exportation Summit 2016 held by Turkish Exporters Council (TİM) as a speaker.
  - Kordsa CEO Cenk Alper attended to panel organized within the event of “Meeting with İş (Business)” held by İş Bankası (Is Bank) for 40<sup>th</sup> time this year as a speaker. He shared his experience with attendants about how Kordsa keeps being the technology leader of the global market at the panel themed “Increasing Competitive Power of Turkey”. (December 2016)
  - Composite Technologies Center of Excellence, which was conjointly brought to life by Reinforcement leader Kordsa and Sabanci University, received LEED Gold certificate, which is considered to be world’s most important certificate in that field and given to buildings with energy and environment friendly designs. (December 2016)
  - Work Safety Training Center, where the employees can see possible work accidents on visual and physical models with the purpose of work safety, was opened. (December 2016)

- Assistant General Director Zeki Kanadıkırık, who is responsible with Kordsa Asia Pacific region, attended to Risk Management Conference held by Enterprise Risk Management Academy in Bali. Zeki Kanadıkırık was a speaker at "Risk Management of Production in Digital Period" panel. (December 2016)
- Assistant General Director Ali Çalışkan, who is responsible with Europe, Middle East and Africa regions of Kordsa attended to "Exportation under the Stars" Summit. Ali Çalışkan, who spoke at the summit about Kordsa's experience in global markets, stated that Kordsa has a wide production network and supply chain that lays from America to Thailand. (December 2016)

### 3. Company Activities and Important Developments regarding the Activities:

Company activities and important developments related with these activities are stated below briefly. Also, there is detailed information within the footnotes of explanatory report related with Consolidated Financial Statements of the company that went through 1<sup>st</sup> January 2016 – 31<sup>st</sup> December 2016 independent audit.

#### a) Investments:

Company made an investment worth of 49 Million Dollars in 2016.

#### b) Internal Control System and Internal Audit Actions, Opinion of the Management Body:

Company's Board of Directors puts required effort in order to continue the internal audit activities of the company, which is subjected to SPK regulations, in the most effective way. An Audit Committee was formed within the structure of Board of Directors with this purpose. Activities of Audit Committee, findings and recommendations as a result of the audit carried out by Internal Audit Department are submitted to Chairman of the Board of Directors. Internal Audit Department directly reports to Board of Directors through the Audit Committee. Processes are reviewed by Internal Audit Department every year and risk-focused annual audit plans are made. Internal Audit Department continues its work pursuant to this plan.

This matter is handled in details under the title of "Internal Audit Department" of 5.3. provision of Corporate Governance Principles Report.

#### c) Subsidiaries, Affiliated Companies (Direct and Indirect\*), Geographic Distribution and (%) Share of the Affiliated Companies:

Subsidiaries	Country	Activity Subject	Geographic Region	Share (%)
NileKordsa Company SAE	Egypt	Cord Fabric Production and Trade	Europe, Middle East and Africa	51
Kordsa Inc.	USA	Industrial Fiber and Cord Fabric Production and Trade	North America	100
Kordsa Brazil S.A.	Brazil	Industrial Fiber and Cord Fabric Production and Trade	South America	97,31
PT Indo Kordsa Tbk	Indonesia	Industrial Fiber and Cord Fabric Production and Trade	Asia	60,21
PT Indo Kordsa Polyester	Indonesia	Industrial Fiber Production and Trade	Asia	99,97
Thai Indo Kordsa Co. Ltd. (*)	Thailand	Cord Fabric Production and Trade	Asia	64,19

#### ç) Information Regarding Company's Own Acquired Shares:

None.

#### d) Information on Private and Public Audit:

There wasn't any private or public audit at our Company in 2016 other than the 1<sup>st</sup> January 2016 – 30<sup>th</sup> June 2016 Consolidated Financial Report limited independent audit and 1<sup>st</sup> January 2016 – 31<sup>st</sup> December 2016 Consolidated Financial Reports independent audit carried out by Independent External Audit Company, in compliance with principles determined according to TTK (Turkish Commercial Code) 6102 and Capital Markets Code 6362.

**e) Information on Important Claims Opened Against the Company and Ongoing and Their Possible Results:**

There is detailed information within the footnotes of the explanatory report related with Consolidated Financial Statements of the Company that went through 1<sup>st</sup> January 2016 – 31<sup>st</sup> December 2016 period independent audit.

**f) Information on Important Administrative Enforcements and Penalties Given About the Company and Members of the Board of Directors due to Applications Against Legislation Provisions:**

None.

**g) Information and assessments regarding whether the determined targets were reached in the past periods, rule of general board are fulfilled, grounds if targets were reached or decisions were fulfilled:**

There is detailed information on the subject under the title of “Financial Situation” on 4<sup>th</sup> provision of Board of Directors Activity Report for 1<sup>st</sup> January 2016 – 31<sup>st</sup> December 2016 period of the company. Also, with decision of our Company’s Board of Directors dated 29<sup>th</sup> February 2016 and numbered 2016/18, pursuant to 10<sup>th</sup> provision of titled “Public Disclosure of Prudential Evaluations” of II-15.1 Special Conditions Notification (“Notification”) of Capital Markets Board, Growth Expectations of our Company for year 2016 were stated as 10-20% for sales and 15-20% for FAVOK (EBITDA/Earnings Before Interest Taxes Depreciation and Amortization), it was disclosed to public on the same day as it is stated in 10<sup>th</sup> provision of the Notification, Chairman of the Board of Directors, CEO and Assistant General Director for Financial Affairs and South America was solely authorized for making statements about the differences that occurs between the current condition and the important changes or expectations that may occur in this context. Actual state by the date of 31<sup>st</sup> December 2016 was carried out as 10% for sales and 20% for FAVOK.

**ğ) If extraordinary general board meeting was held within the year, information regarding extraordinary general board including the date of the meeting, decisions taken in the meeting and transactions made in this regard:**

There wasn’t such a meeting held.

**h) Donations and charities made within the period:**

NAME	AMOUNT
Sabancı University	7.499.280 TL
15 <sup>th</sup> July Solidarity Donation	850.000 TL
Kocakaymaz Yunus Emre Elementary School	75.892 TL
Bayraktar Grade School	74.697 TL
İzburs (Iz-scholarship)	13.000 TL
Other	5.474 TL
The Spinal Cord Paralytics Association of Turkey	6.500 TL
TEMA (The Turkish Foundation for Combating Erosion Reforestation and the Protection of Natural Habitats)	3.500 TL
Turkish Education Foundation	1200 TL
Turkish Active Soccer Referees Association	770 TL
Kocaeli University	50 TL
<b>TOTAL</b>	<b>8.530.363 TL</b>

A **Donation and Aid Policy** is effective at the Company that is in compliance with Corporate Governance Principles of SPK.

Kordsa Donation and Aid Policy, was prepared by Corporate Governance Committee on the date of 18<sup>th</sup> December 2014 with the decision no 2014/6, in compliance with II-17.1 “Corporate Governance Notification” that came into force by being published on Official Gazette issue number 28871 dated 3<sup>rd</sup> January 2014 by Capital Markets Board and II-19.1 “Profit Share Notification” that came into force

by being published on Official Gazette issue number 28891 dated 23<sup>rd</sup> January 2014 by Capital Markets Board, approved by Board of Directors with decision dated 18<sup>th</sup> December 2014 and numbered 2014/25, approved Donation and Aid Policy was shared with public on the same day with Special Circumstances Disclosure over [www.kap.gov.tr](http://www.kap.gov.tr) and it is submitted to information of shareholders and beneficiaries at Company's corporate web site <http://www.kordsa.com> on the same day.

Donation and Aid Policy, which was accepted by Board of Directors and shared with public pursuant to Corporate Governance Principles 1.3.10., was submitted to approval of shareholders and approved at the 2015 Ordinary General Assembly dated 23<sup>rd</sup> March 2016.

Information was given to shareholders as a separate topic of the General Assembly about the amount of donations and aids made within the period, their beneficiaries and the limitations on the subject.

**i) If it is a company affiliated to a companies group; legal transaction made by it or a company affiliated to it with a company affiliated to the holding company and all other precautions taken or avoided to be taken in favor of the holding company or its affiliated company in the past activity year:**

There is detailed information in 26<sup>th</sup> footnote of the explanatory report related with Consolidated Financial Statements that went through Company's 1<sup>st</sup> January 2016 – 31<sup>st</sup> December 2016 independent audit.

**If it is a company affiliated to a companies group; according to stated and conditions known by them at the time when the legal transactions said in the (i) clause was made or precautions was taken whether an opposing execution appropriate for any legal transaction was provided and the precaution avoided to be taken or taken gave damage the company, and if the company damaged whether this damage was compensated or not;**

There is detailed information in 26<sup>th</sup> footnote of the explanatory report related with Consolidated Financial Statements that went through Company's 1<sup>st</sup> January 2016 – 31<sup>st</sup> December 2016 independent audit.

#### 4. Financial position:

(Million TL)	1 <sup>st</sup> January - 31 <sup>st</sup> December 2016	1 <sup>st</sup> January - 31 <sup>st</sup> December 2015	Change %
<b>Sales Income</b>	1.908	1.735	10,0
<b>Gross Sales Profit</b>	397	315	25,9
<b>Main Activity Profit</b>	240	171	40,8

Special Ratios	1 <sup>st</sup> January - 31 <sup>st</sup> December 2016	1 <sup>st</sup> January - 31 <sup>st</sup> December 2015
Gross Profit Margin	%20,8	%18,2
Main Activity Profit Margin	%12,6	%9,8
Net Profit Margin	%9,3	%6,7
Profitability of Assets	%7,6	%5,3
Profitability of Equity Capital	%13,7	%10,0

*Detailed financial situation of the Company are given in explanatory report of Consolidated Financial Statements of the Company that went through 1st January 2016 – 31st December 2016 independent audit, and footnotes of the report.*

*Also, strategical objectives of the Company and information regarding the situation of the Company towards these objectives are given in details under the title of “Company Strategical Objectives” of 5.5. provision of Corporate Governance Principles Compliance Report, Kordsa Dividend Policy regarding dividend policy, information about dividend and how the profit is used are given in details under the title of “Profit Share Right” of 2.5. provision of Corporate Governance Principles Compliance Report.*

#### **5. Risk Management:**

Risk assessment and internal control mechanism are performed at each level of the Company. Risk management approach of the Company is explained in details in 5.4. provision of Corporate Governance Principles Compliance Report. Early Detection of the Risk Committee carries out its duties of identification, early detection, inspection of risks that may put Company’s existence, development and continuity into danger, formation of models and management systems for prevention of risks, application of required precautions against the risks and management of the risks. Detailed information regarding committees are given in details in 5.3. provision of Corporate Governance Principles Compliance Report.

#### **6. Other Issues and Information Not Contained In Financial Statements But Useful For Users:**

##### **Articles of Association Amendments Made within the Period:**

There were Changes on Articles of Association in 2016: Amendment of 10<sup>th</sup> provision titled “Capital” of Articles of Association that includes the change of 500.000.000 TL worth of authorized capital ceiling, which was valid for a 5 years period between 2011-2015, was examined by Capital Markets Board in terms of provisions of Capital Markets Law in compliance with II-18.1 Authorized Capital System Notification, changing the provision in question in the way that is given on the permission note numbered 29833736-110.03.02-E.96 and dated 07.01.2016 with stamp of Capital Markets Board on it, was found to be suitable and approved in compliance with 33/2 provision of Capital Markets Law, and it was also approved by T.R. Ministry of Customs and Trade on the date of 11<sup>th</sup> January 2016. Amended provision of the Articles of Association was submitted to approval of partners at 2015 Ordinary General Assembly dated 23<sup>rd</sup> March 2016, it was registered at Trade Registry Directorate on the date of 29.03.2016 and announced on 116<sup>th</sup>, 117<sup>th</sup> and 188<sup>th</sup> pages of Turkish Trade Registry Gazette issue number 9046 dated 04.04.2016.

##### **Independent Audit Company Amendment:**

At 2015 Ordinary General Assembly dated 23<sup>rd</sup> March 2016, it was approved by our shareholders within the direction of Audit Committee proposal and recommendation of Board of Directors, that DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi (DRT Independent Audit and Independent Accounting and Financial Consultancy Inc.) (Member of DELOITTE TOUCHE TOHMATSU LIMITED) to be appointed for 1 (one) year in order to perform audit of Financial Statements and Reports within 2016 accounting period of the Company and other activities within the scope of regulations on the matter, in compliance with principles stated by Turkish Commercial Code No. 6102 and Capital Markets Code No.6362. Within this context, an independent audit agreement was signed with the company in question on the date of 29th June 2016.

##### **Issued Stock and Bonds:**

None.

##### **Legislation Amendments that may Significantly Affect Company Activities:**

None.

##### **Vision and Values:**

**Our vision:** Agile Kordsa within Business Fields with High Added-Value for Sustainable Growth



### Strategical Initiatives:

- **Operational Excellence** (Competitive Cost, Leadership in Product and Service Quality, Plain and Agile Processes - Equipment)
- **Growth in Tire Industry** (New Products for High Performance Tires, Profitable Growth in Tire Industry)
- **Growth in Close Industries** (Reinforcement Materials for Composite Industry, Reinforcement Materials for Construction Industry, Synthetic Fibers for Alternative Industries)

### Corporate Values:

- **Worker Health, Worker Safety and Environment:** We believe that all business and environment accidents are avoidable. Our objective is to create a 100% accident-free, safe work environment and manufacturing with 0% waste.
- **Loyalty to Ethical Values:** Our ethical values, which we are 100% bound to, regulates our relations with our employees, shareholders, customers, suppliers, business partners, competitors, our relation with environment and society.
- **Customer Focus:** We grow together with our customers who prefer us as their strategical technology partners; we provide innovative, accurate and unique solutions for them.
- **Open-mindedness:** Innovativeness is coded in our genes. Thanks to our 43 years of experience, our technology center continuously develops new products, technologies and processes.
- **Result Oriented:** As a company, which is the leader of nylon 6.6 World market and which continuously creates values to its shareholders, we provide high quality services to our customers. Our technologies are used in one of each 3 automobile tires and one of each 2 airplane tires in the World.
- **Global Cooperation and Solidarity Culture:** We get our strength from cooperation and solidarity, we benefit from the best applications carried out in our factories in all our facilities.
- **Continuous Development:** We continuously improve all processes in our organization within the context of our customer-oriented approach and total quality management.

### Products:

Company is the global leader supplier of high denier Nylon 6.6 and HMLS polyester industrial fibers, cord fabric and single cord products, and primary customers are automotive tire and mechanical rubber manufacturers. Company offers services on global scale to its customers with the products it created to be used on various applications such as automotive tires, air suspension systems, hoses, V-belts and rope and cord sets.

Kordsa entered to construction reinforcement technologies market in 2014 with KraTos synthetic fiber reinforcement material for concrete. Kordsa also penetrated into composite technologies market in 2016 by manufacturing resin that covers carbon fabric.

## TIRE REINFORCEMENT TECHNOLOGIES

### Fiber

Fiber portfolio of the Company, which is one of the leaders of Nylon 6.6 and HMLS polyester fiber market, are diversified by developing/improving features of durability, modulus and dimensional stability according to demand coming from the market. Nylon 6.6 and Polyester fiber can be manufactured in low and high dtex according to fields of application. Cord fabric, industrial fabrics, chafer fabric, single cord, seatbelt strap, sets of ropes and cords are among main application areas of these fibers.

### Cord Fabric

Company manufactures cord fabric that provides flexibility and durability to vehicle tires by processing Nylon 6.6, HMLS polyester, rayon fiber and aramid fiber at facilities with high technology in compliance with different customer specifications.

### Single Cord

Synthetic fibers such as nylon, polyesteraramid, rayon and fibers made of natural fibers are used for Single Cord products. Intended adhesion and physical features for fibers, which will be used according to customer specifications, are provided by finishing after bending them with single or multi-layer.

### Capmax<sup>®</sup>,

Capmax<sup>®</sup> is an upper-belt cord that can be directly applied at tire manufacturing machines without the need of covering with rubber. Capmax<sup>®</sup> reduces manufacturing cost and increases efficiency by eliminating steps of paste preparation, calendaring and cutting at standard upper-belt preparation process. It reduces the amount of rubber in the tire by removing rubber covering requirement, it also contributes to cost advantage as well as reducing rolling resistance and fuel consumption.

Capmax<sup>®</sup> aims for Global Light Vehicle Tires Market, in which upper-belt cord is used.

The process starts with long and detailed approval works of the product for replacement market tires. During the next phase, field performance of the tires, which are started to be used, are followed in certain intervals, and this continues until a general market approval is acquired. Low speed class tires is the segment with least risk for product approval of upper-belt cords. Low profit margin of these tires that comes with smaller rim dimensions requires the obligation of reducing the cost to as minimum as possible.

Replacement market, which forms almost 80% of the total tire market, also creates high sale potential because of its potential volume advantage.

Strategically, Capmax<sup>®</sup> focuses on domestic manufacturers in regions of development and growth, without making additional investments on current covering processes. Improvement has been recorded in positioning and commercialization activities in developing markets of India and China.

### Twixtra<sup>®</sup>

#### Hybrid Cord Solutions

Cord structures, which are formed by bending two or more material types together, are called "hybrid cords".

Product groups that consists of hybrid cords enter to the industry commercially under the brand of "Twixtra<sup>®</sup>". In this sense, Aramid/Nylon 6.6 hybrid cord is the most preferred structure. Choice of automobile manufacturers for high performance tires is Aramid/Nylon 6.6 hybrid cord structure.

Continuous growth in the high speed performance tires segment draws the attention on Twixtra products. The market share of this product, which is used for high added-value tires of leader tire manufacturers, increases each year. With Twixtra product group, service is provided to developing tire manufacturers by conveying good experience aimed for application.

## **Monolyx®**

### **Durable Protection**

In today's world, bus and lorry radial tires are reinforced with steel on large scale. High tensile strength of steel enables heavy load to be carried effectively on bus and lorry tires, but on difficult road conditions such as mines and construction sites, punctures on the tires cause damage as steel reinforcement materials are fragile, and this causes a serious cost item for business administrators. Monolyx® is durable against punctures with the high toughness level that it has, and it provides a longer lifespan with bad road conditions.

It has been proved with rubber field tests that perforation with stone punctures are reduced by 46% on lorry tires, for which Monolyx® is used as protective belt layer. Monolyx® is an effective tire protection member with its strong structure that doesn't experience corrosion. Due to the fact that Monolyx® is  $\frac{1}{7}$  of a steel cord with same volume in terms of weight, it also brings cost advantage with itself. Getting steel framework and belt layers under protection with Monolyx® increases the lifespan of a tire while reducing the costs when in comparison with utilization of steel layer.

### **Solution Technology without Resorcinol and Formaldehyde (RF-free Dipping Technology)**

Kordsa shows leadership of the industry and sensitivity towards the environment also in development of more sustainable products.

Within the scope of this initiative, the new base solution, which was developed by Kordsa's own self-efficacy and doesn't contain Resorcinol® and Formaldehyde (F), and cord fabric products that is developed with this solution are revolutionary in tire industry. Kordsa reinforced its leader position in the industry by breaking grounds with this project.

Values achieved as the result of the tire tests carried out shows that cord fabric covered with solution that doesn't include RF give equal performance when compared with cord fabric covered with conventional RF solution. With this new product, Kordsa is prepared to new regulations that will be needed by tire industry in near future and meet customer expectations at the same time.

### **Kordsa® SA164 Technical Nylon**

Kordsa started to lay its industrial fabric production experience also to other areas of technical textile rapidly. By working together with leading rug and fabric manufacturers, protective textile, net / rope industry and chopped fiber/flock manufacturers of Turkey and Europe for Polyamide 66 fibers that has high durability and erosion resistance with its different molecular structure, and product variety is continuously increased.

### **Kordsa® Nylon 6.6 Products**

Kordsa® T728

Fiber: T728

Polymer: PA66

Kordsa® T802

T802 cord fabric is mostly used for airplane tires. Kordsa is the leader of the market in this field.

### **Important Aspects of the Products:**

- Lightness
- High workability
- Longevity
- Developed Safety
- High Loading Capacity

### **Application Areas:**

- Upper-belt cord material for cars and light commercial vehicles.
- Framework, reinforcing strip material

## **Kordsa® T728 SEC**

T-728 SEC is a multifilament PA66 fiber product designed especially for advanced industrial solutions. It has superior mechanical fiber quality with its developed physical features. It is heavily used for modular tire production. Hoses, air suspension bellows, V-belts can be counted among its other utilizations.

## **CONSTRUCTION REINFORCEMENT TECHNOLOGIES**

### **Concrete Reinforcement Materials *KraTos Macro and KraTos Micro Synthetic Fiber Reinforcement***

Kordsa Construction Reinforcement Business Unit, which was founded in second quarter of 2014, makes market research and develops technologies to manufacture construction reinforcement products.

Kordsa launched KraTos, which is the first product of Construction Reinforcement Business Unit, thanks to its accumulated knowledge in industrial fiber technology with reinforcement mission.

KraTos, which provides speed, less labor requirement, improved equipment and energy efficiency, high concrete toughness, long-term durability and low carbon oscillation for successful and sustainable construction projects, is a new synthetic fiber reinforcement material for concrete. KraTos became the first domestic product within the fiber reinforcement market over USD 500 million. It is observed that there will be a more rapid growth in the next 10 years within the synthetic fiber hardware market which is one of the most innovative application solutions and which grows with the growth of construction market and rising awareness.

KraTos disperses homogeneously in concrete with less labor and easy application features, and provides high toughness and long-term durability by increasing concrete's carrying capacity substantially. At the same time, as it prevents structural crack formation effectively, KraTos Macro Synthetic Fiber Reinforcement is used as a replacement of steel mesh and steel wire in different infrastructure and superstructure projects. KraTos, which also acquired CE Quality Certificate, is preferred by many prestigious public and private industry projects due to its features of utilization easiness advantages, product performance, high concrete toughness and long-term durability that it provides for important projects in domestic market and our activities for partaking in markets, which we have global footprints on, still continues.

## **COMPOSITE REINFORCEMENT TECHNOLOGIES**

Kordsa develops innovative and unique intermediate products and application for different industries particularly such as aviation, automotive and sports equipment, wind turbine and navigation in the fields of composite reinforcement materials.

With its solution partner perspective, in addition to prepreg, fabric and resin development works, it provides services in subjects such as design, analysis, material library, prototype manufacturing support depending on customer requirements. Kordsa carries out product development works of tailor-made cost-focused composite intermediate product as single solution partner.

Demands of composite industry are quickly met with high quality products thanks to its cutting-edge technology equipment, competent personnel and experience of 43 years in weaving and covering technologies.

Fundamental research, applied research, technology development, entrepreneurship, all processes of manufacturing are carried out under the single roof of Composite Technologies Center of Excellence, which is one of the very few development centers of the world by combining industry and university under a single roof. Researchers, designers, engineers, employees and authorities of manufacturing process, doctorate students, post doctorate researchers, academicians, and entrepreneurs work in the same ecosystem as all relevant actors of this process. In accordance with customer requirements, services are provided to all shareholders in all steps of research and development loop starting from fundamental research and continuing with prototype manufacture and ending with mass production.

**Information regarding 2016 Report that explains Relations with Controlling and Affiliated Partners in the scope of 199<sup>th</sup> provision of Turkish Commercial Code (TTK):**

Pursuant to 199<sup>th</sup> provision of Turkish Commercial Code no. 6102, that got into force on the date of 1<sup>st</sup> July 2012, Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş. Board of Directors are obliged to issue a report within the first three months of activity year regarding the relations with the controlling partner and affiliated companies of the controlling partner during the past activity year and to give the conclusion part of that report a place in the activity report. Required explanations about the transactions carried out between Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş. and the relevant parties is included in 26<sup>th</sup> financial report footnotes. The report prepared by our Company's Board of Directors in compliance with 199<sup>th</sup> provision of TTK, which explains our relations with controlling and affiliated companies, was approved at Board of Directors meeting dated 20.02.2017, the conclusion part of the report in question is as follows;

Referring to 199<sup>th</sup> provision of Turkish Commercial Code 6102, information related with transactions of goods and services purchases-sales carried out between Kordsa and controlling Company and affiliated Companies of the Controlling Company on an extensive and continuous basis was submitted.

This report, which was prepared by Company's Board of Directors and dated 20<sup>th</sup> February 2017, it is seen that all required legal transactions were made and precautions were taken in the scope of responsibilities given to Board of Directors and stated on 199<sup>th</sup> provision of TTK 6102, for all transactions carried out in 2016 between Kordsa, the controlling Company and affiliated Companies of the Controlling Company.

Transactions carried out are in compliance with its equals in accordance with controlling Company explanations of TTK 6102 stated in relevant provisions, and Kordsa didn't suffer any losses for being included in Company Group.

## **CORPORATE GOVERNANCE COMPLIANCE REPORT**

### **SECTION I – Declaration of Compliance with Corporate Governance Principles**

a) Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret Anonim Şirketi (will be referred as “Company” or “Kordsa”) followed all of the mandatory provisions, which are obligatory to application, of Corporate Governance Principles that is found within the appendix of Corporate Governance Notification (Notification) numbered II-17.1 and published by Capital Market Board (CMB) within accounting period of 1<sup>st</sup> January – 31<sup>st</sup> December 2016.

b) During 2016 operation year, our company exercised due diligence with purposes of total harmony to the principles of Corporate Governance Principles that are not obligatory to follow and submitted detailed information regarding these matters for shareholders and beneficiaries on addresses of [www.kap.gov.tr](http://www.kap.gov.tr) and <http://www.kordsa.com>

Accordingly;

- Within the scope of compliance with principle 4.2.8, Responsibility Policy for Members and Chairman of Board of Directors was issued for mistakes made by members and executives of Board of Directors during their duties and for possible losses that they may cause for the Company.
- In compliance with principle 1.6, dividend policy of the Company was submitted to approval of shareholders at the Ordinary General Assembly of year 2015, dated 23<sup>rd</sup> March 2016 and it was published on Company web site and [www.kap.gov.tr](http://www.kap.gov.tr).
- In compliance with principle 1.3.10, the limitation of donations that will be made by the Company in 2016, was submitted for approval of 2015 Ordinary General Assembly as 5% (5 percent) of the net profit and accepted. A total compliance with some of the principles, which aren't obligatory to comply, haven't been met yet due to reasons such as difficulties in application, discussions ongoing on both national and international platforms regarding with the compliance of certain principles and several principles not fully corresponding to existing conditions of the market and the Company. Abeyance reasons of the principles in question are summarized below:
  - During the compliance work of principles 1.2.1 , 1.5.1 and 1.5.2 , as it is thought that the existing regulations within the Turkish Commercial Code is adequate, the Company didn't apply any arrangements on the (prime) contract of association.
  - In addition to full compliance with principle 2.1.4 being aimed, people, who will benefit from the explanations, especially international investors are able to achieve such information via benefitting from the infrastructure of data dispenser companies such as Reuters, Foreks etc., certain information aren't prepared in English in order to prevent additional workload and expenses for the company. The work for submission of the information, which is found on the internet site in Turkish, also in English on a vast scale is still ongoing.
  - Even though there isn't a Company policy regarding the principle 4.3.9, due diligence is shown on the matter and two of the existing members of the Board of Directors are women.
  - Even though due diligence is shown for compliance with principle 4.5.5, a member of the Board of Directors may take place in more than one committee due to work expertise needed for the membership of the committee in question.
  - In compliance with principle 4.6.5, explanations, which are given, aren't made on a personal basis.
  - In compliance with principle 3, a model or mechanism on the matter of beneficiaries' attendance to the management hasn't been formed. Independent members within the Board of Directors make the representation of all beneficiaries as well as the Company and shareholders within the management possible. It is thought that principles, which are not being applied yet and left outside the principles currently being applied, haven't caused any conflicts of interests between beneficiaries until today. Our company follows the developments and applications of the regulations and it will continue to the necessary compliance work with principles in the following periods.

## SECTION II - SHAREHOLDERS

### 2.1. Investor Relations Department

Within the organization of our Company, in accordance with 11<sup>th</sup> provision of the Notification, there is the department of investor relations in order to provide communication between partnerships and investors.

Activities regarding this department are run under the responsibility of Financial Affairs Assistant General Manager Fatma Arzu ERGENE, member of the Corporate Governance Committee, who is also responsible with investor relations. Coordination of the department is provided by Global Finance Director Serdar SAMSUN, and management of the investor relations department is carried out by Global Finance Expert Ayhan KARAKOCA. Global Finance Expert Çetin Alper EKE acts as an expert of investor relations department. Also in the department, Mustafa YAYLA is responsible from relations with shareholders.

Company Authorities for Communication			
Name Surname	Duty	Phone No.	e-mail Address
Fatma Arzu ERGENE	Financial Affairs Vice General Manager	0 216-300 11 20	<a href="mailto:arzu.ongun@kordsa.com">arzu.ongun@kordsa.com</a>
Serdar SAMSUN	Global Finance Director	0 216-300 11 21	<a href="mailto:serdar.samsun@kordsa.com">serdar.samsun@kordsa.com</a>
Ayhan KARAKOCA	Investor Relations Department Manager	0 216-300 11 24	<a href="mailto:ayhan.karakoca@kordsa.com">ayhan.karakoca@kordsa.com</a>
Çetin Alper EKE	Investor Relations Department Expert	0 216-300 11 22	<a href="mailto:cetin.eke@kordsa.com">cetin.eke@kordsa.com</a>
Mustafa YAYLA	Authority of Shareholders Relations	0 216-300 11 27	<a href="mailto:mustafa.yayla@kordsa.com">mustafa.yayla@kordsa.com</a>

Investor relations department is responsible with informing shareholders and potential investors on a regular basis about Company activities, financial condition and strategies (excluding confidential information and trade secrets and in a manner that will not cause information asymmetry) and management of bidirectional communication between shareholders and company directors.

Investor relation department is active on the matter of utilization of shareholder rights and with reporting board of directors, keeping the communication between Board of Directors and shareholders, and the major activities carried out within the period are listed as follows:

- Provided keeping correspondences made between investors and partnership and records related with other information and documents in a healthy, secure and updated manner, coordinated translations at Central Registry Agency A.Ş. (CRA),
- Information demands related with partnerships submitted to the Department within the period wasn't shared with public, such demands are answered face-to-face or via communication tools, explicitly and clearly, in accordance with Company Informative Policy, excluding confidential information and trade secrets,
- Provided that the Ordinary General Assembly within the period was held in accordance with the legislation in force, Articles of Association and direct Intercorporate regulations,
- Developed applications that will make attendance of shareholders to the General Assembly in an easier manner and that will strengthen the communication during the meeting, prepared documents at General Assemblies from which the shareholders will benefit, provided shareholders with uninterrupted and clear information by updating internet site continuously,
- Provided coordination of communication with public opinion in addition to explanations made as a requirement of the regulations, held meetings with investors and analysts, attended to conferences and presentation tours held by mediator companies provided that performance of all obligations rising from Capital Market Regulations including all aspects related with corporate governance and public disclosure is taken into consideration and followed.

Investor Relations Department answered written and vocal information demands coming from shareholders, corporate investors and investment corporation analysts within the period, via phone,

fax and e-mail (yatirimciiliskileri@kordsaglobal.com) in accordance with Capital Market Regulations, in a way that will not cause information inequality and without making any discriminations.

Work aimed for conveying detailed information related with Company activities to investors in the year of 2016, is summarized in the table below:

<b>Number of investors and analysts spoken via phone</b>	<b>: 100</b>
<b>Number of investors and analysts answered via e-mail</b>	<b>: 39</b>
<b>Number of analyst meetings held</b>	<b>: 45</b>

Investor Relations Department, which provides communication between partners of our Company and investors and carries out its activities directly depending on Financial Affairs Vice General Manager, submitted a report to Board of Directors on the date of 20<sup>th</sup> February 2017 after preparing it in relation with the activities it carried out in 2016 activity period and in accordance with 11<sup>th</sup> provision of “Corporate Governance Notification” numbered SPK II-17.1

## **2.2. Use of Shareholders’ Rights to Information**

In compliance with Informative Policy of our Company, it is essential that all shareholders, potential investors and analysts are treated equally for the utilization of information acquirement and observation and explanations to be made with the same content to each person. Each information sharing is carried out within the scope of the content shared with public before.

For the utilization of information acquirement among shareholders, all information excluding the ones with trade secret qualities is shared with shareholders; it is aimed for shareholders to acquire information from first hand related with their strategies and activities.

During 2016, written and predominantly vocal question demands coming from shareholders, and conveyed via phone, e-mail and face-to-face in person, and mainly about General Assemblies made within the last activity period, capital increase made in previous years, profit share remuneration and Company investments, are answered by Investor Relations Department with care and without delay and within the framework of regulations, information that will interest shareholders with that purpose are shared via our internet site within obligatory announcement periods.

Also, in order to enable all shareholders, beneficiaries and potential investors to access information related with Company in an easy and equal manner, all required information and documents for utilization of shareholder rights in a healthy manner are submitted via our internet site in addition to the information that is required to be announced.

In addition to the fact that the issue of private auditor appointment wasn’t regulated with Company’s articles of association, any demand regarding the appointment of a private auditor wasn’t received within the activity period that ended on the date of 31<sup>st</sup> December 2016.

## **2.3. General Assembly Meetings**

Regulations of Kordsa’s General Assemblies are made by Board of Directors in accordance with Turkish Commercial Code (TTK), Capital Market Code, provisions of Company’s Articles of Association and provisions of “Internal Directive regarding Working Principles and Methods of General Assembly” found on “Information Community Services” of Company web site, that was accepted at General Assembly of the Company dated 28<sup>th</sup> March 2013, registered on Trade Register and announced at Turkish Trade Registry Gazette (TTGS).

At the time of a decision from the Board of Directors for holding a General Assembly is made, public opinion is informed about that by explanations made via MKK (Central Securities Deposit) and KAP. General Assembly announcement is made at 21 days (at latest) prior to the General Assembly over the Company internet site and Central Registry Agency (Central Securities Deposit) internet site’s electronic general assembly system page.

Required documents related with agenda topics are shared with public before General Assembly, legal processes and regulations are followed for all announcements. Among the agenda topics of the general assembly; annual activity report, financial statements, corporate governance compliance report, dividend suggestion, independent audit report and legal auditor report, amendment drafts including the old and new forms of the text if there will be any changes on Articles of Association are made accessible for examination in a manner in which shareholders can easily access over company head office and internet site, 3 weeks before General Assembly. Also, detailed information regarding



each agenda topic is included in informative documents related with agenda topics, other information foreseen for General Assemblies is submitted to investors within principles.

General Assemblies are held at company head office.

Meeting records are accessible via Company internet site and [www.kap.gov.tr](http://www.kap.gov.tr) address, and over Electronic General Assembly System page on the internet site of Central Registry Central Registry Agency (Central Securities Deposit). Also, these records are accessible for examination of shareholders at the company head office and they are given to ones who demand.

Agenda of the 2015 Ordinary General Assembly was determined on the date of 29.02.2016 with Board of Directors Decision no 2016/6, General Assembly agenda, Board of Directors activity report including the audited numbers of 2015, financial statements and reports of 2015, independent audit reports, dividend suggestion of Board of Directors, general assembly informative document prepared in relevance with general assembly agenda topics and other documents forming the basis of agenda topics are shared with public starting from the date of 1<sup>st</sup> March 2016, 3 weeks before the General Assembly, over MKK [www.kap.gov.tr](http://www.kap.gov.tr) address with ODA, on MKK Electronic General Assembly System page, and "Investor Relations" page of Company internet site, and they are kept ready for examination of shareholders at Investor Relations Department and Shareholders Relations Department at Company Head Office located at the address of Sabancı Center, 4.Levent, 34330 Beşiktaş - ISTANBUL. Questions related with the documents in question are answered.

Shareholders, Capital Market Board, and/or other public institutes and public establishments related with the Company didn't have any demands about adding a topic to the agenda before the General Assembly.

2015 Partners Ordinary General Assembly of the Company was held on Wednesday, on the date of 23<sup>rd</sup> March 2016, at 13:30, in Hacı Omer Conference Hall located at the Company head office address of Sabancı Center 4. Levent, Beşiktaş, İstanbul, under the supervision of Orhan KARABEY, Representative of Ministry who is tasked by Istanbul Governorate, Provincial Directorate of Commerce with the letter dated 21.03.2016 and numbered as 14731498

Shareholders attended to Ordinary General Assembly in physical environment and electronical environment in person and via their representatives. Beneficiaries other than the shareholders and the media didn't attend to the meeting.

The meeting was started by Mehmet Nurettin PEKARUN, Chairman of the Board of Directors, after stating that the company independent auditor was present at the meeting, simultaneously in electronic and physical environment, and then continued with discussion of the agenda topics.

Call to the General Assembly had been announced as it is foreseen on Laws and Articles of Association, and in a manner including the agenda, at the address of [www.kap.gov.tr](http://www.kap.gov.tr), over Electronic General Assembly System of Central Registry Agency and also over the Company web site, and it had been made at least 3 weeks prior from the date of the General Assembly, via all kinds of communication tools including electronic communication in compliance with foreseen principles of regulations and with the purpose of reaching to the maximum possible number of shareholders and by announcing meeting date and agenda.

Quorum of the meeting at the 2015 Ordinary General Assembly is 74,74% of the company capital.

As a separate agenda topic of the General Assembly, amount of the donations and aid made within the period and their beneficiaries. Also at the meeting, the maximum limit for donations of 2015 was set.

Shareholders were entitled with expression their opinion and asking questions in equal conditions. There wasn't any partners who wanted to speak about topics outside the agenda during the meeting, and there wasn't any questions asked to the Board of Directors.

Shareholders didn't make any suggestions outside the agenda at the General Assembly.

General Assembly records was shared with public via KAP, Trade Registry Gazette and Electronic General Assembly System, also all kinds of announcements, documents and files related with General Assembly are submitted for information of shareholders and all beneficiaries at Company web site.

General assembly documents have been submitted to examination of shareholders at Company's head office since 2005; these documents are also accessible from [www.kap.gov.tr](http://www.kap.gov.tr) and Company web site.

Extraordinary General Assembly wasn't held in 2016.

#### **2.4. Right to Vote and Rarity Rights**

A privileged voting right isn't described in Articles of Association of the Company.

There is a single voting right reserved for each share.

There isn't a company, with which our Company is in reciprocal shareholding benefits.

Minority shareholders and beneficiaries aren't represented within Board of Directors. However, there are two independent member of Board of Directors in order to represent all shareholders and beneficiaries equally, particularly minority shareholders.

Our company places emphasis on utilization of minority rights in compliance with regulations of Turkish Commerce Code and Capital Market Code, and there weren't any criticism or complaints about those during the twelve months period of 2016.

#### **2.5. Dividend Rights**

There aren't any prerogatives reserved for participation to company profit.

The Company has a written Dividend Policy.

##### **Dividend Policy;**

With the decision dated 16<sup>th</sup> March 2015 and numbered 2015/8 of our Company's Board of Directors, Dividend Policy, which was revised within the framework of latest changes within Capital Market Legislation and which was submitted for information of shareholders and beneficiaries over [www.kap.gov.tr](http://www.kap.gov.tr) and Company web site on the same day, was accepted by Board of Directors; Dividend Policy, which was announced with its form written below, was submitted to approval of and accepted by shareholders during 2015 Ordinary General Assembly dated 23<sup>rd</sup> March 2016.

#### **2.6. Transfer of Shares**

There isn't any provisions that limits the transfer of shares in Company Articles of Association.

Transfer of Company Shares is carried out within the framework of Turkish Commerce Code and Capital Market Code provisions.

### **SECTION III – PUBLIC DISCLOSURE AND TRANSPARENCY**

#### **3.1. Information (Informative) Policy**

An Information Policy, which is in compliance with Corporate Governance Principles of Capital Markets Board, is effective within the Company.

Information Policy was updated by Corporate Governance Committee on the date of 23<sup>rd</sup> March 2015 within the framework of latest changes of Capital Market Legislation, following the approval of Board of Directors, it is shared with public on the same day over [www.kap.gov.tr](http://www.kap.gov.tr) with Special Circumstances Disclosure and on Company web site for information of shareholders and beneficiaries.

*Board of Directors is authorized and responsible with following, supervision and development of Company Public Disclosure and Information Policy.*

*Global Financial Directorate, which is responsible with Investment Relation within the organization of Financial Affairs Assistant General Directorate is tasked with supervising and monitoring all matters related with public disclosure.*

Other matters that may interest investors but left outside the notifications that is required to be published as per the regulations and that isn't trade secret, are disclosed to people and institutions on a timely manner and in correct, complete and understandable form within the direction of principles of "Interior Information Public Disclosure" of Capital Markets Board.

#### **3.2. Corporate Web Site and Contents**

Our company has a corporate web site and its address is <http://www.kordsa.com>

Contents of the web site is in Turkish and English.

Terms of use for the site is submitted for information of beneficiaries on Legal Information section of the site.

The work started for submission of the information found on the web site in Turkish into English on a vast scale is still ongoing. Financial Reports, Activity Report and other various information can also be found in English. Work related with development of the web site is continuously ongoing.

### 3.3. Activity Report

All information counted among Corporate Governance Principles is also included in our Company's activity reports. However, remuneration made to Board of Directors and Senior Executives and all other benefits aren't given place to on a personal basis. Benefits provided to executives are given as in total amount.

## SECTION IV - STOCKHOLDERS

### 4.1. Information to Stakeholders

Employees, customers, suppliers, syndicates, civil society organizations, state, potential investors, etc., who are in direct relation with the Company, are considered to be beneficiaries. By paying attention to the fact that being in cooperation with beneficiaries will be for the benefit of the Company on long-term, Company respects and protects the rights of beneficiaries, which are gained by legislation, mutual agreement and contracts.

Within the framework of Company Information Policy, information, which don't carry the qualifications of trade secret, is shared with beneficiaries through transparent public statements, media, meetings, etc.

Beneficiaries learn about the developments regarding Company, through public statements in accordance with the relevant regulations. Public informative announcements are made via information tools such as special circumstances disclosures, financial statements and reports, annual activity reports, web page, presentations, investor meetings and teleconferences, information letters, press statements, Trade Registry Gazette, etc. Primary public disclosure methods and tools used by Kordsa, without prejudice to Capital Market Legislation and Turkish Trade Code (TTK) provisions, are listed as follows;

- Special Circumstances Disclosure conveyed via Public Disclosure Platform (KAP),
- Financial statements and footnotes, independent audit report, declarations and activity report conveyed to Public Disclosure Platform (KAP) on a periodical basis,
- Announcements and notice made via Turkish Trade Registry Gazette (registration statement, circular, general assembly call etc.),
- Press statements made via written and visual media,
- Statements made to data distribution corporations such as Reuters, Foreks etc.,
- Informative calls and meetings with capital market attendants face-to-face or via teleconference,
- Corporate Internet Web Site, ([www.kordsa.com](http://www.kordsa.com)) informative announcements,
- Statements made via communication methods and tools such as communication made via phone, cell phone (WAP and similar technologies), e-mail ([yatirimciiliskileri@kordsa.com](mailto:yatirimciiliskileri@kordsa.com)), telefax, etc.

In addition to the information included within financial statements and reports made within the direction of Capital Markets Board regulations and shared with public (except the information not yet shared with public); vocal or written information is shared with beneficiaries such as company employees, customers, syndicates, civil society organizations, state, potential investors, on their demand and on matters that may be an interest to these parties. Company employees are also informed on their expertise fields and general subjects, in which they may be interested in, with information through meetings held, seminars and trainings organized, and via e-mail sent to them. There is a portal for employees and they are enabled to access to all kinds of information and document, which may interest them, through this portal.

Employees are able to access all kinds of information and documents, which may interest them, with e-applications found on company communication network, they are able to manage different processes in electronic environment.

Information on all subjects is shared with customers and suppliers, mutual works and projects are carried out in order to develop processes.

Kordsa World magazine, from which company employees benefit from and which is published once in every three months and distributed for free, is in operation at the moment. Also, our Company adopted ethical principles in order to protect the rights of beneficiaries and formed ethical committees in order to manage these rules.

Beneficiaries are able to reach Sabanci Holding's, which is controlling shareholder of the Company, ethical rules and ethical committee, corporation's e-mail ([etik@sabanci.com](mailto:etik@sabanci.com)) address and phone

through <http://www.sabanci.com.tr> address, and to Company Business Ethics Rules, to Ethical Rules Consultants of direct and indirect partnerships of the Company, names, e-mail address ([etik.tr@kordsa.com](mailto:etik.tr@kordsa.com)) and phones of those consultants through the address of <http://www.kordsa.com>.

Kordsa's all ethical activities, which are carried out in 5 countries, are managed by Global Human Resources Director Nazan KESKIN; and Turkey's ethical activities are managed by Kordsa İzmit Human Resources and Information Technologies Group Director, Kordsa Turkey Ethical Committee consultant Elif Gül.

Required mechanism, which is needed for informing Corporate Governance Committee and Audit Committee about the transactions of beneficiaries that is contrary to Company's regulations and not suitable in ethical terms, is formed by the company.

#### **4.2. Stakeholders' Participation in Management**

There isn't a model or mechanism formed for participation of beneficiaries to the management. However, independent members within the Board of Directors make the representation of all beneficiaries as well as the Company and shareholders for the management.

Management contribution of the shareholders take place at the General Assembly, shareholders are given the opportunity of expressing their opinion and asking questions under equal conditions. All members of the Board of Directors are elected as a result of the voting made with opportunity participation and evaluated by getting opinion of beneficiaries about their loyalty and satisfaction levels at the General Assembly.

A governance model is applied at our company that encourages contribution of the employees to formation of the major policies, spreading of these policies to entire Company and turning them into objectives, realization of planned applications, and provision of continuous improvement by reviewing application results.

Participation of our white collar employees to the management is also made through periodical meetings, annual goal setting and performance evaluation interviews. Actions plans are formed by focusing on fields of our white collar and blue collar employees with Employee Loyalty Survey application. Also employees provide feedback to management and their colleagues with 360 degrees feedback mechanism, and actions plans are formed for required changes by discussing results at various management meetings. With these approaches, required participation and contribution of the employees is provided for effective governance of the Company.

While making regulations on working conditions and working environment of blue-collar employees, rights provided to these employees and similar topics, works are carried out in cooperation, meetings are held, opinions of Turkey Textile Weave and Clothing Industry Labor Union (TEKSIF), which our union member employees are members of, and Turkey Textile Industry Employer Union, which our Company is a member of, are taken.

#### **4.3. Human Resources Policy**

Current human resources policies and applications of the Company is submitted below and they are also announced at the address of <http://www.kordsa.com>. Relevant activities are managed by Global Human Resources Director Nazan Keskin.

Just like companies of Sabanci Community that are actively doing business in national and international markets, Kordsa also respects and acts in compliance with national laws and (if exists) private laws such as collective labor agreements within the markets it exists. During the process between the starting and termination dates of work agreements of the employees, due diligence is shown for protection and remuneration of all rights and receivables.

#### **Global Human Resources**

Kordsa sees its human resources spread over 5 countries worldwide as an indispensable part for achieving its strategical objectives and carries out its human resources applications under a global strategy. Global Human Resources within the structure of the Company is responsible with forming and carrying out this global strategy. Global Human Resources carries out recruitment and positioning, remuneration and fringe benefits, performance management, organization and human

resource revision and back-up plans, leader and employee development, international appointments, organizational climate and strategical operations related with Human Resource processes such as these in parallel with Kordsa's sustainability and business objectives.

### **Global Human Resources Vision**

It is to position Human Resources function as an important "business partner" of Company's other functions, present World quality and standard services to internal customers, and to create a company that has the status of a favored employer.

### **Global Human Resources Mission**

It is to develop, apply and support programs/processes that

- Leading the way of drawing talented work force to the Company and keeping them in hand,
- Supporting the formation of a positive organizational climate,
- Supporting the authorization and development of employees,
- Providing satisfaction for shareholders.

### **Principle Liabilities of Global Human Resources**

Global Human Resources function is positioned as an "expertise field", its basic contribution and expectations from this function is kept at strategical level. Application of Human Resources processes at operational level and it is majorly carried out by local establishments.

Major responsibilities of Global Human Resources are;

- To develop and encourage the spread of Human Resources policy, system and processes that supports Company strategies and business needs,
- Formation and application of global strategies that fits Company's sustainability activities,
- To design and manage development programs structured at different levels (such as development programs for young talents, mid-level management, top management, etc.), which will support Company's corporate growth objectives, together with regional and local Human Resources departments,
- To enable development of best professionals at each level by creating different experience opportunities within the direction of expectations of the Company and its employees.

#### **4.4. Ethical Rules and Social Responsibility**

Company carries out all of its activities and relations and protection of beneficiaries' rights in compliance with Business Ethical Rules accepted by Company Board of Directors.

Kordsa Business Ethics Rules regulates our Company's relations with customers, employees, shareholders, suppliers, business partners, competitors, environment and society; and it is collected under four major titles named legal responsibilities, honesty, confidentiality and conflict of interests. In order to manage the ethical rules on this matter, an Ethical Rule Consultant, who is responsible with application of Kordsa Business Ethics Rules as necessary, is appointed for each of our production facility.

Business Ethical Rules in question, Company, Ethical Rules Consultants of direct and indirect partnerships of the Company, names, e-mail addresses ([etik.tr@kordsa.com](mailto:etik.tr@kordsa.com)) and phones of these consultants are shared with public through the Company web site that can be accessed from <http://www.kordsa.com> and awareness of the employees related with the subject is increased through regularly held trainings.

All ethical activities of Kordsa, which are carried out in 6 countries, are managed by Nazan Keskin, Global Human Resources Director; Kordsa Turkey's ethical activities are managed by Human Resources and Information Technologies Group Director, Kordsa Turkey Ethical Rules consultant Elif Gül.

Company carries out its duties within social responsibility scope by donations and aids made to foundations and associations founded with social purposes and educational institutions, universities and miscellaneous people, institutions and organizations, in compliance with Company policies and procedures particularly Company Articles of Association, Business Ethics rules, Capital Market Regulations, Turkish Commercial Code and relevant legislation. Within this scope, Company donates an amount of 5 percent of its profit before taxes to Sabanci University every year.

Detailed information regarding Donations and Aids can be found in details under the title of “(h) donations and aids made within the period” at “Company Activities and Important Developments regarding Activities” on 4<sup>th</sup> provision of Board of Directors Activity Report.

Kordsa acts sensitively towards its social responsibilities and follows ethical rules and regulations regarding environment, consumers and public health. Company supports and respects human rights with international validity. It fights against all kinds of corruption including subornation and bribery within the framework of Fight against Bribery and Corruption Policy.

## **SECTION V – BOARD OF DIRECTORS**

### **5.1. Structure and Formation of Board of Directors**

Company’s Board of Directors observes compliance of Company activities with regulations, articles of association, internal regulations and determined policies, as well as it represents and manages the Company by paying regard to long-term interests and paying attention to Company risks, growth and yields with the strategical decisions it makes.

In accordance with provisions of Turkish Commercial Code and Company Articles of Association, Company’s Board of Directors consists of seven members elected at 2014 Ordinary General Assembly dated 24<sup>th</sup> March 2015 to perform their duties until 2017 Ordinary General Assembly that will take place in 2018.

2 people (Atıl SARYAL and Hüsnu Ertuğrul ERGÖZ) were chosen as independent member candidates at the report dated 27.02.2015, which was prepared by Corporate Governance Committee and submitted to Board of Directors.

“Independence Declaration” of Independent Members of the Board of Directors are given place to Information Documents related to Ordinary General Assembly of Shareholders belonging to year 2014 and dated as 24<sup>th</sup> March 2015 and within the attachments of this report (APPENDIX-1, APPENDIX-2), and it is submitted to information of shareholders and beneficiaries at <http://www.kordsa.com> address of the Company.

With decision dated 23<sup>rd</sup> March 2016 and numbered 2016/10 of our Company’s Board of Directors, Board of Directors delegated the duties between themselves in compliance with Company Articles of Association after 2015 General Assembly of the Shareholders dated 23<sup>rd</sup> March 2016.

### **Changes Made within the Board of Directors during the Period**

- With the decision dated 21<sup>st</sup> April 2016 and numbered 2016/12 of our Company’s Board of Directors, Mehmet HACIKAMİLOĞLU was appointed as the replacement of Mehmet Nurettin PEKARUN who resigned from Chairman and Member positions of the Board of Directors on the date of 21<sup>st</sup> April 2016.
- With the decision dated 24<sup>th</sup> June 2016 and numbered 2016/20 of our Company’s Board of Directors, Barış ORAN was appointed as the replacement of Seyfettin Ata KÖSEOĞLU who resigned from Membership of Board of Directors and Membership of Corporate Governance Committee on the date of 24<sup>th</sup> June 2016.
- With the decision dated 16<sup>th</sup> December 2016 and numbered 2016/30 of our Company’s Board of Directors, Mehmet Mesut ADA was appointed as the replacement of Peter Charles Hemken who resigned from Membership of Board of Directors on the date of 16<sup>th</sup> December 2016.

These changes will be submitted for approval of shareholders at the first General Assembly that will be made.

Structure of our Board of Directors was formed in compliance with principles determined by SPK. Company’s Board of Directors Members are as follows according to separation of executives and non-executives and independent members:

- |                                |   |                         |
|--------------------------------|---|-------------------------|
| <b>1. Mehmet HACIKAMİLOĞLU</b> | <b>: Chairman</b>                               | <b>(executive)</b>      |
| <b>2. Neriman ÜLSEVER*</b>     | <b>: Deputy Chairman</b>                        | <b>(executive)</b>      |
|                                | <b>Corporate Governance Committee Member</b>    |                         |
|                                | <b>Early Detection of Risk Committee Member</b> |                         |
| <b>3. Mehmet Mesut ADA</b>     | <b>: Member</b>                                 | <b>(non- executive)</b> |

- |                                |                             |   |
|--------------------------------|-----------------------------|---|
| <b>4. Barış ORAN</b>           | <b>: Member</b>             | <b>(non- executive)</b>                           |
|                                |                             | <b>Corporate Governance Committee Member</b>      |
| <b>5. Fezal OKUR ESKİL</b>     | <b>: Member</b>             | <b>(non- executive)</b>                           |
| <b>6. Atıl SARYAL</b>          | <b>: Independent Member</b> | <b>(non- executive)</b>                           |
|                                |                             | <b>Audit Committee Member</b>                     |
|                                |                             | <b>Corporate Governance Committee Chairman</b>    |
|                                |                             | <b>Early Detection of Risk Committee Chairman</b> |
| <b>7. Hüsnü Ertuğrul ERGÖZ</b> | <b>: Independent Member</b> | <b>(non- executive)</b>                           |
|                                |                             | <b>Audit Committee Chairman</b>                   |
|                                |                             | <b>Corporate Governance Committee Member</b>      |
|                                |                             | <b>Early Detection of Risk Committee Member</b>   |

*(\*) Deputy Chairman of the Board of Directors Neriman ÜLSEVER resigned from Deputy Chairman and Member positions of Board of Directors on the date of 2<sup>nd</sup> January 2017, Barış ORAN was appointed with Deputy Chairman position of the Board of Directors. At the same time, Board of Directors Deputy Chairman Barış ORAN was appointed for Membership of Early Detection of Risk Committee, Fezal OKUR ESKİL, who is a Member of the Board of Directors, is elected for Membership of Corporate Governance Committee.*

Qualifications and election conditions for members of the board of directors are stated in 19<sup>th</sup> and 22<sup>nd</sup> provisions of Company articles of association. Qualifications that are considered to be necessary matches with the relevant provisions of Corporate Governance Principles of SPK.

Governance rights and representation authorities of Company's Board of Directors and Company Executives' authorities and responsibilities are described on 14<sup>th</sup>, 16<sup>th</sup>, 17<sup>th</sup>, 18<sup>th</sup>, 19<sup>th</sup>, 21<sup>st</sup>, 22<sup>nd</sup> provisions of Company Articles of Association.

Management, representation, binding of and transfer of these authorizations at Kordsa Global Endüstriyel İplik ve Kord Sanayi ve Ticaret Anonim Şirketi are regulated within the scope of Internal Directive dated 24<sup>th</sup> March 2015 and numbered 1, which is regulated according to 367<sup>th</sup> and 371<sup>st</sup> provisions of Turkish Commercial Code numbered 6102 related with utilization of limited authority, and 14<sup>th</sup>, 16<sup>th</sup>, 17<sup>th</sup> and 21<sup>st</sup> provisions of Articles of Association, accepted by the decision of our Board of Directors dated 24<sup>th</sup> March 2015 and numbered 2015/11, registered by Istanbul Trade Registry Directorate on the date of 2.4.2015, and published on 821<sup>st</sup>, 822<sup>nd</sup>, 823<sup>rd</sup> pages of Turkish Trade Registry Gazette dated 8<sup>th</sup> April 2015 with issue number 8796.

In this context; authorized signatories of the Company were determined with decision of Board of Directors dated 24.03.2015 and numbered 2015/12, signatory circular no. 53 was issued and came into force starting from the date of 13<sup>rd</sup> April 2015.

As stated in provision no 1.3.7. of Capital Market Board Corporate Governance Principles; during the twelve months period of 2016, shareholders that has control over the governance of the Company, members of the Board of Directors, executives with management responsibilities, their spouses, their blood relatives and relatives by marriage (up to 2<sup>nd</sup> degree) didn't make any important transactions that will cause a conflict of interest with partners and affiliated companies, didn't make a transaction, which is a type of commercial business that is in the field of operation of partnership or affiliated companies, on their own or someone else's behalf, didn't take participation with the title of unlimited partner in another partnership that deals with same kind of commercial transactions. With a separate agenda topic of General Assembly, information is given to shareholders about the developments on these matters.

At the 2015 General Assembly of the Shareholders held on the date of 23<sup>rd</sup> March 2016;

Chairman and Members of the Board of Directors is given permission to carry out the transactions written on 395<sup>th</sup> and 396<sup>th</sup> provisions of Turkish Commerce Code.

Even though there isn't a Company policy regarding the recommendation of "at least a 25% of women as members of the Board of Directors, these determine a target ratio and target time, and create policies in order to achieve those targets" of 4.3.9. provision of "CORPORATE GOVERNANCE NOTIFICATION" Corporate Governance Principles numbered II-17.1 of Capital Markets Board,

required care is given on this matter and two of the members of the Kordsa Board of Directors are women.

During the twelve months period of 2016, even though permission is given to members of the Company's Board of Directors by General Assembly for 395<sup>th</sup> and 396<sup>th</sup> provisions of Turkish Commerce Code, they didn't make any transactions together with the Company on their own behalf or someone else's behalf, they didn't attempt to get into competition on same kind of business activities.

There have been changes in Board of Directors during the twelve months period of 2016.

#### **Board of Directors:**

##### **1. Mehmet HACIKAMİLOĞLU – CHAIRMAN OF THE BOARD OF DIRECTORS (Executive)**

**Duty Term: 21<sup>st</sup> April 2016 - March 2018 (until 2017 Ordinary General Assembly)**

He was graduated from Civil Engineering department of Bogazici University in 1993. He completed Executive MBA program at Sabanci University in 2001. He worked as a Field Engineer at Üstay Construction company between 1992-1993. He joined Sabanci Community in 1993 and he respectively worked as a Ready-Mixed Concrete Plant Chief and Investment and Planning Chief at Betonsa. He worked as a Strategy Development and Planning Director at Akçansa between 1997-1999, he worked as a Company Director at Agregasa between 1999-2001. He worked as Financial Coordinator at Akçansa between 2001-2003, worked as Assistant General Director responsible with Financial and Management Works at Çimsa between 2003-2006; he started working as General Director at Cimsa starting from 1<sup>st</sup> July 2006, he started working as a General Director at Akçansa starting from 1<sup>st</sup> September 2014. Hacikamiloğlu, who was tasked with Sabanci Holding Concrete Group Chairmanship on the date of 17.02.2016, he was tasked with Industrial Group Chairmanship on the date of 21st April 2016, in parallel with the decision of union Industrial Group Directorate and Concrete Group Directorate organizations under the Industrial Group Directorate, which are within the structure of Sabanci Holding.

#### **TASKS PERFORMED OUTSIDE THE COMPANY:**

##### **In-Group;**

HACI ÖMER SABANCI HOLDİNG A.Ş. Industrial Group Chairman  
AFYON ÇİMENTO SANAYİ T.A.Ş. Board of Directors Chairman  
AKÇANSA ÇİMENTO SANAYİ VE TİCARET A.Ş. Board of Directors Chairman  
BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş. Board of Directors Member  
ÇİMSA ÇİMENTO SANAYİ VE TİCARET A.Ş. Board of Directors Chairman  
YÜNSA YÜNLÜ SANAYİ VE TİCARET A.Ş. Board of Directors Chairman  
TEMSA GLOBAL SANAYİ VE TİCARET A.Ş. Board of Directors Chairman  
TEMSA MOTORLU ARAÇLAR PAZARLAMA VE DAĞITIM A.Ş. Board of Directors Chairman  
TEMSA İŞ MAKİNALARI İMALAT PAZARLAMA VE SATIŞ A.Ş. Board of Directors Chairman

##### **Outside the Group;**

ÇEİS-ÇİMENTO ENDÜSTRİSİ İŞVERENLERİ SENDİKASI  
(CEIS-CONCRETE INDUSTRIAL EMPLOYERS UNION) Board of Directors Member  
İMSAD-İNŞAAT MALZEMESİ SANAYİCİLERİ DERNEĞİ  
(İMSAD-CONSTRUCTION MATERIALS INDUSTRIALISTS ASSOCIATION) Board of Directors Member  
BOĞAZIÇI ÜNİVERSİTESİ İNŞAAT MÜHENDİSLİĞİ DANIŞMA KURULU  
(BOGAZICI UNIVERSITY CIVIL ENGINEERING CONSULTANCY COUNCIL) Member  
TÜSİAD-Türk Sanayicileri ve İşadamları Derneği  
(Turkish Industrialists and Employers Association) Member  
İSTANBUL GOLF KULÜBÜ (İSTANBUL GOLF CLUB) Member  
SAINT-JOSEPH'LİLER DERNEĞİ (SAINT-JOSEPH ALUMNI ASSOCIATION) Member  
BÜMED-BOĞAZIÇI ÜNİVERSİTESİ MEZUNLAR DERNEĞİ  
(BOGAZICI UNIVERSITY ALUMNI ASSOCIATION) Member  
TİSK- Türkiye İşveren Sendikaları Konfederasyonu  
(Turkey Employer Unions Confederation) Audit Council Member



**2. Neriman ÜLSEVER BOARD OF DIRECTORS DEPUTY CHAIRMAN (Executive)  
CORPORATE GOVERNANCE COMMITTEE MEMBER  
EARLY DETECTION OF RISK COMMITTEE MEMBER**

**Duty Term: (16<sup>th</sup> August 2011) 24<sup>th</sup> March 2015 - March 2018 (until 2017 Ordinary General Assembly)**

Neriman Ülsever graduated from Bogazici University Business and Operational Research department in 1975. Ülsever, who started her Professional life with Turkish Airlines in 1973, respectively took different tasks at Anadolu Bankası A.Ş., Emlak Bankası A.Ş., Group Sanfa and Impexbank. She started working for İKE Ltd., which she founded, as Managing Partner starting from 1995, she specialized on the subjects of human resources consultancy and training.

Ulsever, who performed duties in group and on international platforms starting from the year of 1995, in which Indesit Company entered to the Turkish market, performed the duties of Eastern Europe and International Markets HR Director in Switzerland between 1999-2002, and also Western Europe Markets HR Director in France between 2001-2004. She took the duties of HR Director, who is responsible with World Trade Organization, in Italy between 2004-2006. Between 2006-2010 in Italy, she took the positions of Indesit Company Group Global HR Directorate and membership of the executive board. Ulsever, who has been a Member for the Board of Directors at Indesit Turkey since 1996, was appointed to Chairman position of Indesit Turkey's Board of Directors on 1<sup>st</sup> January 2011, and to Director position of Sabanci Holding Human Resources Department on the date of 16<sup>th</sup> May 2011 and she is performing both her duties together.

**TASKS PERFORMED OUTSIDE THE COMPANY:**

**In-Group;**

HACI ÖMER SABANCI HOLDİNG A.Ş. Human Resources Group Director

AKSİGORTA A.Ş. Member of Board of Directors

ANKARA ENTERNASYONEL OTELCİLİK A.Ş. Member of Board of Directors

AVİVASA EMEKLİLİK VE HAYAT A.Ş. Member of Board of Directors, Corporate Governance Committee Member

BİMSA ULUSLARARASI İŞ BİLGİ VE YÖNETİM SİSTEMLERİ A.Ş. Board of Directors Deputy Chairman

CARREFOURSA CARREFOUR SABANCI TİCARET MERKEZİ A.Ş. Member of Board of Directors, Corporate Governance Committee Member

TEKNOSA İÇ VE DIŞ TİCARET A.Ş. Member of Board of Directors, Corporate Governance Committee Member, Early Detection of Risk Committee

TEMSA GLOBAL SANAYİ VE TİCARET A.Ş. Board of Directors Deputy Chairman, Corporate Governance Committee Member

TURSA SABANCI TURİZM VE YATIRIM İŞLETMELERİ A.Ş. Member of Board of Directors

**Outside the Group;**

AUTOGRILL / ITALY - Member of Board of Directors

**3. Mehmet Mesut ADA MEMBER**

**Duty Term: 16<sup>th</sup> December 2016 - March 2018 (Until 2018 Ordinary General Assembly.)**

He graduated from Electronics and Communication Department of Istanbul Technical University. He worked as an engineer in 4 different companies between 1975-1980. He started working for in 1980, respectively as Maintenance Engineer, Maintenance Director and Production Director. He was transferred to Dusa (Dupont – SA group coinvestment) in 1987 as Project Director. Ada, who was transferred to Dupont in 1991, worked as Production Director at Dupont Lycra establishment (Holland) between 1991-1993 and as Factory Director at Dusa coinvestment between 1993-2001. He was transferred back to Sabanci Group in 2001, and between the years of 2002-2006, he worked as Sasa Operation Director, Sasa General Director and ADVANSA Operation (Turkey, England and Germany) Deputy Chairman. Ada, who was transferred to Kordsa in 2007, respectively worked as Fiber Business General Director in North America (Tennessee), InterKordsa General Director in Germany and Operation Director in South America (Brazil, Argentina). He was retired from Kordsa Brazil in 2014.

## **TASKS PERFORMED OUTSIDE THE COMPANY:**

### **In-Group;**

PT Indo Kordsa Tbk (Indonesia) Board of Directors Member

#### **4. Barış ORAN MEMBER CORPORATE GOVERNANCE COMMITTEE MEMBER**

**Duty Term: 24<sup>th</sup> June 2016 - March 2018** (*Until 2017 Ordinary General Assembly.*)

Barış Oran, who graduated from Business Department of Boğaziçi University, completed his MBA training in The University of Georgia. Oran, who started his business life in PriceWaterhouseCoopers in 1995 as an auditor, worked in audit and then finance and treasury/capital markets subjects at Sara Lee Corp. Chicago IL between 1998-2003. Between 2003-2006, he worked as responsible Senior Managing Director at first in Minneapolis, MN and then Europe, Middle East, Africa and India regions for Ernst and Young company. Oran, who started his work for Kordsa in 2006, respectively worked in positions of Internal Auditing Director, Global Financial Director and CFO. Oran, who was appointed as H.Ö. Sabancı Holding Finance Director in 2011 and H.Ö. Sabancı Holding Planning, Reporting, Finance Department Director in 2012, has been carrying out the duty of H.Ö. Sabancı Holding Finance Group Director since 2016.

He is a member of the Board of Directors for Akçansa, Avivasa, Brisa, Carrefoursa, Çimsa, Enerjisa and Teknosa.

## **TASKS PERFORMED OUTSIDE THE COMPANY:**

### **In-Group;**

AVİVAŞA EMEKLİLİK VE HAYAT A.Ş. Board of Directors Member

BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş. Board of Directors Member

CARREFOURSA CARREFOUR SABANCI TİCARET MERKEZİ A.Ş. Board of Directors Member

ÇİMSA ÇİMENTO SANAYİ VE TİCARET A.Ş. Board of Directors Member

ENERJİSA ENERJİ ÜRETİM A.Ş. Board of Directors Member

ENERJİSA ELEKTRİK ENERJİSİ TOPTAN SATIŞ A.Ş. Board of Directors Member

ENERJİSA DOĞALGAZ TOPTAN SATIŞ A.Ş. Board of Directors Member

ENERJİSA ELEKTRİK DAĞITIM A.Ş. Board of Directors Member

ENERJİSA ELEKTRİK PERAKENDE SATIŞ A.Ş. Board of Directors Member

ENERJİSA ANADOLU YAKASI ELEKTRİK PERAKENDE SATIŞ A.Ş. Board of Directors Member

ENERJİSA TOROSLAR ELEKTRİK PERAKENDE SATIŞ A.Ş. Board of Directors Member

HACI ÖMER SABANCI HOLDİNG A.Ş. Finance Group Director

TEKNOSA İÇ VE DIŞ TİCARET A.Ş. Board of Directors Member

### **Outside the Group;**

TÜSİAD Board of Directors Member

TÜYİD YATIRIMCI İLİŞKİLERİ DERNEĞİ

(TUYID INVESTOR RELATIONS ASSOCIATION) Board of Directors Member

BÜMED Board of Directors Member

#### **5. Fezal OKUR ESKİL - MEMBER**

**Duty Term: 24<sup>th</sup> March 2015 - March 2018** (*Until 2017 Ordinary General Assembly.*)

After graduating from Industrial Engineering Department of Bogazici University in 1998, Fezal Okur Eskil got the degrees of Industrial Engineering (MSIE) and Operations (MBA) Post Graduate from Georgia Institute of Technology.

Eskil, who started professional business life in 2001 at A.T. Kearney company in USA as strategy and management consultant, performed duties as Operational Authority at Eczacıbaşı – Baxter between 2005-2006, Strategical Supply Chain Director that is responsible with different regions in Philip Morris Sabancı A.Ş. between 2006-2007 and Strategy and Business Development Director at Hacı Ömer Sabancı Holding A.Ş. between 2007-2012.

Eskil has been performing the duty of Strategy and Business Development Director at Hacı Ömer Sabancı Holding A.Ş. company since 1<sup>st</sup> January 2013.

#### **6. Atıl SARYAL INDEPENDENT MEMBER**

**AUDIT COMMITTEE MEMBER  
CORPORATE GOVERNANCE COMMITTEE CHAIRMAN  
EARLY DETECTION OF RISK COMMITTEE CHAIRMAN**

**Duty Term: (18<sup>th</sup> April 2012) 24<sup>th</sup> March 2015 - March 2018 (Until 2017 Ordinary General Assembly.)**

Atıl Saryal was born in Ankara in 1938. After completing his elementary and secondary education in Ankara, he studied in engineering department of Texas University. He worked in banking industry upon his arrival in Turkey. Following that, he was transferred to Sabancı Group. He worked as a General Manager in Sasa and Marsa in Adana. He was the Chairman of Adana Chamber of Industry for 8 years. He was a member for Board of Directors at Philsa, Exsa and Plassa. Later, he was appointed to Food and Retailing Chairman position and acted as a Chairman of Board of Directors in Kraftsa, Danonesa, Diasa, Carrefoursa, Marsa and Sapeksa. As he retired from Group Chairman position in 2002, membership and Chairman positions of Board of Directors in 2004, he also left membership position in TÜSİAD.

**TASKS PERFORMED OUTSIDE THE COMPANY:**

**In-Group;**

AKÇANSA ÇİMENTO SANAYİ VE TİCARET A.Ş. Independent Member of the Board of Directors. Corporate Governance Committee Chairman, Audit Committee Member and Early Detection of Risk Committee Chairman

TEKNOSA İÇ VE DIŞ TİCARET A.Ş. Independent Member of the Board of Directors, Audit Committee Chairman, Corporate Governance Committee Member and Early Detection of Risk Committee Member

**Outside the Group;**

CARREFOURSA, France – Turkey Consultant

OLMUKSAN INTERNATIONAL PAPER AMBALAJ SANAYİ VE TİCARET ANONİM ŞİRKETİ Independent Member of the Board of Directors, Audit Committee Chairman and Corporate Governance Committee Member and Early Detection of Risk Committee Member

**INDEPENDENCE DECLARATION**

It is given in APPENDIX-1.

**7. Hüsnü Ertuğrul ERGÖZ**

**INDEPENDENT MEMBER  
AUDIT COMMITTEE CHAIRMAN  
CORPORATE GOVERNANCE COMMITTEE MEMBER  
EARLY DETECTION OF THE RISK COMMITTEE MEMBER**

**Duty Term: (18<sup>th</sup> April 2012) 24<sup>th</sup> March 2015 - March 2018 (Until 2017 Ordinary General Assembly)**

Dr. Hüsnü Ertuğrul Ergöz got his bachelor degree from Chemistry department of Robert College Academy in 1963. He received his Master degree from ODTU in 1965 and PHD from Florida State University in 1970. Ergöz worked as a lecturer in Chemistry department of ODTU between 1972-1976. Ergöz, who started his professional life as Technical Survey and Project Expert in Kordsa, performed several duties in time for group companies such as Sabancı Holding and Brisa. He retired from Sabancı Holding General Secretariat in 2003. After his retirement, he acted as a member of the Board of Directors at Pressan AŞ. Ergöz carries out special studies on the matter of 'Institutionalization for Family Companies'.

**TASKS PERFORMED OUTSIDE THE COMPANY:**

**In-Group;**

AFYON ÇİMENTO SANAYİ T.A.Ş. Independent Member of Board of Directors

**Outside the Group;**

SASA POLYESTER SANAYİ A.Ş. Independent Member of Board of Directors

BÜMED-BOĞAZIÇI ÜNİVERSİTESİ MEZUNLAR DERNEĞİ  
(BOGAZICI UNIVERSITY ALUMNI ASSOCIATION) Member

**INDEPENDENCE DECLARATION**

It is given in APPENDIX-2.

## **Senior Management:**

### **1. Cenk ALPER ( CEO ( Chief Executive Officer ) )**

Cenk Alper graduated from Mechanical Engineering Department of Middle East Technical University in 1991, received his post graduate degree from the same department in 1994, and completed Executive MBA program of Sabancı University in 2002.

Alper, who started his business life in 1996 as Process Engineer at Beksa, continued his career with various management positions in technology and production departments. After working as a Project Director in Bekaert Technology Center (Belgium) that he was appointed for in 2002, he worked as a Factory Director in Tennessee/USA responsible with North and South America factories, and then returned to Belgium as Technology Center Product Development Director.

He joined to Kordsa in 2007 as Global Technology Director, he acted as Deputy Chairman responsible with Technology and Market Development between 2009-2010.

Cenk Alper was appointed as Deputy Chairman responsible with Operations on October 2010, as "Chairman and CEO" on 17<sup>th</sup> June 2013, and he has been performing his job as CEO (Chief Executive Officer) since 19<sup>th</sup> September 2014

### **TASKS PERFORMED OUTSIDE THE COMPANY:**

#### **In-Group;**

Direct Partnership / Kordsa Inc. (United States of America) Chairman

Direct Partnership / Kordsa Inc. (United States of America) Chairman of the Board of Directors

Direct Partnership / Kordsa Brasil S.A. Chairman of the Board of Directors

Direct Partnership / PT Indo Kordsa Tbk (Indonesia) Chairman of the Executive Committee

Direct Partnership / PT Indo Kordsa Polyester (Indonesia) Member of the Board of Directors

Indirect Partnership / Thai Indo Kordsa CO. LTD. (Thailand) Member of the Board of Directors

#### **Outside the Group;**

DEİK (Foreign Economical Relations Council) Member

Turkish-American Business Council (TAİK) Member of the Board of Directors

İSO-İstanbul Sanayi Odası (Industrial Chamber of Istanbul) Member

KalDer-Türkiye Kalite Derneği Üyesi (Turkish Quality Association) Member

### **2. Ali ÇALIŞKAN (Assistant General Manager, Europe, Middle East, Africa (EMEA) )**

Ali Çalışkan got his bachelor degree from Mechanical Engineering Department of ODTU (Middle East Technical University) in 1983, and started his professional business life as Project Engineer at Soyut Holding in 1984. He joined Kordsa Turkey as Technical Office Engineer in 1986, and he was transferred to Dusa as Project Engineer following the foundation of Dusa (SA-DUPONT Partnership) in October 1987. Çalışkan, who performed managerial duties in Polymer Production, Fiber Production, Engineering Maintenance and Support, Project and Production departments in Dusa and Kordsa Turkey starting from 1989, was promoted to Operation Director of Kordsa Turkey in 2005, and was appointed to Operation Director, Kordsa Turkey & Nilekordsa in 2009. Çalışkan took the position of Indo Kordsa as Operation Director within the scope of international tasking in March 2010, he worked as "Assistant General Manager responsible with Operations" between 17<sup>th</sup> June 2013 and 30<sup>th</sup> June 2015, he was appointed to duty of "Assistant General Manager, Europe, Middle East, Africa (EMEA)" on 1<sup>st</sup> July 2015.

### **TASKS PERFORMED OUTSIDE THE COMPANY:**

#### **In-Group;**

Direct Partnership / Nile Kordsa Company SAE (Egypt) Member of the Board of Directors

Direct Partnership / Kordsa Brasil S.A. Deputy Chairman of Board of Directors

Direct Partnership / PT Indo Kordsa Tbk (Indonesia) Member of the Board of Directors

Direct Partnership / PT Indo Kordsa Polyester (Indonesia) Member of the Executive Committee

Indirect Partnership / Thai Indo Kordsa CO. LTD. (Thailand) Member of the Board of Directors

#### **Outside the Group;**

KSO-Kocaeli Sanayi Odası (Kocaeli Chamber of Industry) 5<sup>th</sup> Occupational Committee Chairman

DEİK-DİŞ EKONOMİK İLİŞKİLER KURULU (FOREIGN ECONOMICAL RELATIONS COUNCIL) – Asia Pacific Business Council General Committee – Member of Thailand and Indonesia Business Council Executive Member

KalDer - Türkiye Kalite Derneği (Turkish Quality Association) Member of Board of Directors

**3. Fatma Arzu ERGENE (Assistant General Manager, Assistant Financial Affairs and General Manager, South America (SA) Corporate Governance Committee Member)**

Fatma Arzu Ergene graduated from Business Department (English) of Marmara University in 1991, she got her business post graduate degree (MBA) at Loyola University of Chicago in 1993.

She joined Kordsa in 1994, she worked as Marketing Expert between 1994-1999, Financial Director between 1999-2005 and EMEA Financial Affairs Director between 2005-2009, Global Purchasing Director between 2009-2013, and “Financial and Purchasing Deputy Chairman” between 1<sup>st</sup> June 2013 and 30<sup>th</sup> June 2015, and appointed to “Assistant General Manager, Assistant Financial Affairs and General Manager, South America (SA)” in 1<sup>st</sup> July 2015.

**TASKS PERFORMED OUTSIDE THE COMPANY:**

**In-Group;**

Direct Partnership / Nile Kordsa Company SAE (Egypt) Member of the Board of Directors

Kordsa Inc. (United States of America) Member of the Board of Directors

Kordsa Inc. (United States of America) Financial Affairs Deputy Chairman

Indirect Partnership / Thai Indo Kordsa CO. LTD. (Thailand) Member of the Board of Directors

Direct Partnership / Kordsa Brazil S.A. Deputy Chairman of Board of Directors

**4. İbrahim Özgür YILDIRIM (Assistant General Manager, Leader of Technology and Composite Work Unit)**

İbrahim Özgür Yıldırım got his bachelor degree from Chemical Engineering Department of ODTÜ in 1993 and post graduate degree from Business Department of Sabanci University in 2005. He started his working life at Rafine Kimya in 1994 and he had worked with different production companies until he started working with Sakosa as a Technical Engineer in 1998. He worked as Technical Engineer and Production Engineer at Sakosa between 1998-2005, he promoted to Kordsa Turkey Technical Director in 2007. İbrahim Özgür Yıldırım, who was transferred to Global Technology Center as New Product Development Director in 2008, performed the duties of New Product and Process Development Director in 2009, Technology Development Director in 2011, Assistant Manager by Proxy, Technology and Market Development between March 2013 and 1<sup>st</sup> October 2013, “CTO – Chief Technology Officer” between the dates of 1<sup>st</sup> October 2013 and 1<sup>st</sup> July 2015, and appointed to “Assistant General Manager, Leader of Technology and Composite Work Unit” on the date of 1<sup>st</sup> July 2015.

**TASKS PERFORMED OUTSIDE THE COMPANY:**

**In-Group;**

Indirect Partnership / Thai Indo Kordsa CO. LTD. (Thailand) Member of Board of Directors

Direct Partnership / PT Indo Kordsa Tbk (Indonesia) Member of the Executive Committee

Direct Partnership / PT Indo Kordsa Polyester (Indonesia) Member of the Executive Committee

**Outside the Group;**

Kompozit Sanayicileri Derneği (Composite Industrialists Association), Member

SAHA İstanbul; Savunma, Havacılık ve Uzay Kümelenmesi Derneği

(SAHA İstanbul: Defence, Aviation and Space Groups Association) , Member

**5. Mehmet Zeki KANADIKIRIK (Assistant General Manager, Asia, Pacific (APAC) )**

Zeki completed his bachelor degree at Mechanical Engineering department of Middle East Technical University in 1986.

He started business life in Çukurova İthalat(Exportation) in 1987, then he worked at Brisa between 1988-1994, at Lubrekip between 1995-1998 and at Tekstil Servis (Textile Service) between 2003-2006. He worked as Mechanical Engineer at Kordsa between 1998-2003 and later appointed as Line-1 Fiber Production Director. After working as an Management Director at Kordsa Turkey between

2009-2010, he worked as Operation Director between 2010-2015, Thai Indo Kordsa. He was appointed to “Assistant General Manager, Asia Pacific” on the date of 1<sup>st</sup> July 2015.

**TASKS PERFORMED OUTSIDE THE COMPANY:**

**In-Group:**

Direct Partnership / PT Indo Kordsa Tbk (Indonesia)  
Chairman of the Board of Directors and General Manager  
Direct Partnership / PT Indo Kordsa Polyester (Indonesia)  
Chairman of the Board of Directors and General Manager  
Indirect Partnership / Thai Indo Kordsa CO. LTD. (Thailand) Member of Board of Directors

**Outside the Group:**

TURKCHAM - Türk Ticaret Odası (Turkish Chamber of Commerce) Indonesia Member of Board of Directors

**6. James Thomas DEL PIANO (Assistant General Manager, North America (NA) )**

Jim got his bachelor degree from Chemistry Engineering department of Drexel University in 1979. He started his professional working life with Milliken, and then he took the position of Process and Quality Engineer at Celanese in 1980, he joined to Hoechst Celanese as Factory Engineer and Maintenance Director in 1988. He worked at KoSA between 2000-2004 as Cord Fabric Business Director and Technology Director. After working as Production Director at Western Nonwovens between 2004-2009, he was transferred to Kordsa as Regional Production Director in 2009. Jim, who worked as North America Operational Director between November 2009 - July 2015, was appointed to task of “Assistant General Manager, North America” on the date of 1<sup>st</sup> July 2015.

**TASKS PERFORMED OUTSIDE THE COMPANY:**

**In-Group:**

Kordsa Inc. (United States of America) Member of Board of Directors and General Manager  
Kordsa Inc. (United States of America) Operation Deputy Chairman

**Outside the Group:**

Amerikan İplik İmalatçıları Birliği (American Fibers Manufacturers Association)  
– Member of Board of Directors

**7. Abdülkadir TOPLU (Global Supply Chain Director)**

Kadir got his bachelor degree from Mechanical Engineering department of Middle East Technical University in 1993. He started his professional business life at Insa in 1995, and he joined to Kordsa Turkey as Line-2 Mechanical Engineer in 1996. Kadir performed the tasks of Line-2 Production Manager, Line-1 Production Manager and Polyester Production Manager duties respectively in 2003, 2005 ve 2006. Kadir, who was appointed for Operation Director position at Kordsa Brazil in 2009, worked as Operation Director at Interkordsa between January 2012 and July 2015. And then appointed for “Global Supply Chain Director” position on the date of 1<sup>st</sup> July 2015.

**TASKS PERFORMED OUTSIDE THE COMPANY:**

**In-Group:**

Direct Partnership / Kordsa Brazil S.A. Board of Directors Deputy of Assistant Manager

**Outside the Group:**

KalDer - Türkiye Kalite Derneği (Turkish Quality Association) - Institution Representative

**8. Vahe HANAMİRİAN (Global Customers and Marketing Director)**

After completing Istanbul English High School, Vahe continued his education at Mathematics department of Stuttgart University. Vahe, who joined as a Marketing Expert to Kordsa in 1987, was transferred to Sakosa as Marketing Director in 1999. Vahe, who joined back to Kordsa as Sales Director in 2005, was appointed to Marketing and Sales Director position in 2008. Vahe, who had the duty of Sales Director, EMEA between 2010-2012, continued by performing as Global Marketing Director between 2012-2015. He was appointed to “Global Customers and Marketing Director” on the date of 1<sup>st</sup> July 2015.

**9. Murat Oğuz ARCAN (Business and Market Development Director and Construction Business Unit Leader)**

Murat got his bachelor degree in Business Department of Bilkent University in 1993, completed E-MBA program of Koç University in 2004.

He started his professional business like at Tofaş as Strategic Planning and Management Development Expert in 1996, and he was appointed with Foreign Trade and Contract Director duty in 2002.

Murat, who was tasked with CEO duty at Hexagon Consultancy, which he was one of the founders of, between 2005-2013, also acted as a pioneer for foundation of National Nanotechnology Enterprise and Wind Energy Technology Platform at the same time.

Murat continued as a Business Partner at Pera EEMEA starting from January 2014 and provided Consultancy services to Erdemir Group starting from September 2014.

Murat Oğuz Arcan joined Kordsa as Business Development Director starting from 1<sup>st</sup> January 2015.

He was appointed to “Business and Market Development Director and Construction Business Unit Leader” on the date of 1<sup>st</sup> July 2015.

#### **TASKS PERFORMED OUTSIDE THE COMPANY:**

##### **In-Group;**

Direct Partnership / Nile Kordsa Company SAE (Egypt) Member of Board of Directors

##### **10. Nazan KESKİN (Global Human Resources Director)**

Nazan completed her education at Business Department of Hacettepe University in 1989. She started her professional business life at Dusa in 1989, and was transferred to Sakosa as HR expert with the foundation of Sakosa in 1997. She acted as Human Resources Director of Sakosa in 2004, and with the merging of Kordsa and Sakosa on June 2005, she worked with Kordsa Human Resources and Industrial Relations Director. She was appointed to Kordsa Human Resources and Industrial Relations Director, Turkey position in 2011.

Nazan was tasked with Human Resources and Information Technologies Director in 2015, and was appointed with Global Human Resources Director starting from November 2016, and she manages Human Resources processes of all factories within Kordsa organization.

#### **5.2. Activity Principles of the Board of Directors**

Board of Directors come together on a frequency that allows them to carry out their tasks effectively, perform their duties in a transparent, accounting, fair and responsible manner, and keep an eye on the long-term benefits of the company while doing so. It is an obligation for Board of Directors to come together when necessary and at least 4 times a year.

Decisions of the Board of Directors are taken in English and Turkish languages.

31 Board of Directors decisions were taken for the Company’s twelve months period of 2016, 20 of these decisions were taken via mail and circulation.

Activity principles of Board of Directors, quorums of the meetings and decisions are carried out by taking the 14<sup>th</sup>, 15<sup>th</sup>, 16<sup>th</sup>, 17<sup>th</sup>, 18<sup>th</sup>, 19<sup>th</sup>, 21<sup>st</sup>, 22<sup>nd</sup> provision of Company Articles of Association into consideration.

There wasn’t a contrary opinion expressed against the decisions taken by Board of Directors members during the meetings held within twelve months period of 2016.

Flaws during the duties performed by Board of Directors members and the losses that may occur in the company due to those are insured with a security deposit of 60.000.000 USD within the scope of management responsibility policy.

#### **5.3. Number, Structure and Independency of Committees Created Within Board of Directors**

Board of Directors benefit from the work of committees while carrying out their tasks and responsibilities. Decision taken as a result of the works carried out by committees are submitted to Board of Directors as recommendations, final decision is taken by the Board of Directors.

In accordance with the provision of “Committees formed within the Structure of the Board of Directors” provisions 4.5 of “CORPORATE GOVERNANCE NOTIFICATION” numbered II-17.1, which came into force by being published on Official Gazette issue number 28871 dated 3<sup>rd</sup> January 2014, there hasn’t been a committee within the Board of Directors structure other than **Audit Committee, Corporate Governance Committee** and **Early Detection of Risk Committee**.

**Audit Committee** performs the tasks foreseen for audit committee in SPK regulations. Also, it supervises the operation and efficiency of company's accounting system, expression of financial information to public, independent audits and internal control system of the company.

**Corporate Governance Committee** surveys Company's compliance with Corporate Governance Principles, makes suggestions of improvement, and supervises the work carried out in Investor Relations Department. In addition to these, Corporate Governance Committee carries out "Nomination Committee" and "Remuneration Committee" functions.

**Early Detection of Risk Committee** works with the purposes of describing, early detection, inspection of risks that may put Company's existence, development and continuity in danger, formation of models and management systems in order to prevent crisis, application of required precautions related with risks and management of risks.

Even though, care is shown for following the recommendation of "not having a member of the board of directors in more than one of the committees" as stated in 4.5.5. provision of "CORPORATE GOVERNANCE NOTIFICATION" number SPK II-17.1, a member of Board of Directors may become a member of more than one committee due to work expertise required by membership to committees.

Within this direction, Neriman ULSEVER, Deputy Chairman of our Company's Board of Directors-Executive, is tasked within Corporate Governance Committee and Risk Committee, Barış ORAN, Member of our Company's Board of Directors - Non-Executive, is tasked within Corporate Governance Committee, Atıl SARYAL, Independent Member of our Company's Board of Directors, is tasked with Audit Committee, Corporate Governance Committee and Risk Committee, Hüsnü Ertuğrul ERGÖZ, Independent Member of our Company's Board of Directors, is tasked with Audit Committee, Corporate Governance Committee and Risk Committee.

*(\*) Board of Directors Deputy Chairman Neriman ÜLSEVER resigned from positions of Board of Directors Deputy Chairman and Membership on the date of 2<sup>nd</sup> January 2017, Barış ORAN was elected for position of Deputy Chairman of the Board of Directors. Also at the same time, Deputy Chairman of the Board of Directors Barış ORAN was elected for Membership to Early Detection of Risk Committee, Member of the Board of Directors Fezal OKUR ESKİL was elected for Membership to Corporate Governance Committee.*

#### **AUDIT COMMITTEE, COMMITTEE MEMBERS AND WORKING PRINCIPLES**

<b>Name Surname</b>	<b>Duty</b>	<b>Nature of Membership to Board of Directors</b>
Hüsnü Ertuğrul ERGÖZ	Chairman of Audit Committee	Independent Member of Board of Directors Member of Corporate Governance Committee Member of Early Detection of Risk Committee
Atıl SARYAL	Member of Audit Committee	Independent Member of Board of Directors Chairman of Corporate Governance Committee Chairman of Early Detection of Risk Committee

#### **Audit Committee**

Within the scope of provision 28/A added to Capital Market Board's Notification of Independent Audits "Series:X, No:16" numbered with "Series:X, No:19" Notification, duty of the Audit Committee founded with the Company's Board of Directors decision dated 17<sup>th</sup> March 2003 and numbered 743 is to inform Company Board of Directors about Company's accounting system, financial reporting, financial information shared with public, activities of the internal audit department, operation and



efficiency of independent audit and internal control systems, to support Company's work on compliance with relevant laws and regulations, primarily Capital Markets Board Regulation, Corporate Governance Principles and Company's ethical rules and to perform surveillance tasks on these matters.

#### **Organization and Responsibility Fields of the Committee**

Atıl SARYAL and Hüsnü Ertuğrul ERGÖZ, who were elected as Independent Members of the Board of Directors at 2014 Shareholders Ordinary General Assembly held on the date of 24<sup>th</sup> March, were elected as Members of the Audit Committee with the decision of Board of Directors dated 24<sup>th</sup> March 2015 and numbered 2015/13.

The members consists of people, who doesn't directly undertake executive functions and who carries independent member status within the Board of Directors with adequate knowledge and experience on financial matters. Audit Committee Chairman and Member are appointed by Board of Directors. Reporter of the Audit Committee is carried out by Company's internal audit unit. That reporter is tasked by Chairman of the Audit Committee. Required sources and all kinds of support that is needed by them to perform is provided to Audit Committee by Board of Directors.

Audit Committee supervises the Company's accounting system, sharing financial information with the public, operation and efficiency of independent audit and Company's internal control system, internal audit department. So, the committee makes sure that financial and operational activities are kept under surveillance, internal and external audit is carried out in healthy conditions, they express opinion about the compliance of financial statements with reality, makes recommendations to Board of Directors for the selection of independent audit institution, reviews Company policies related with compliance with laws, ethics, conflicts of interest, investigations regarding mismanagement and sharp practices and suitability of corporate governance policies via internal audit department, discusses the sufficiency of internal control system by meeting with internal audit department, and builds a communication bridge between Board of Directors, financial directors, independent audits and internal audit department by holding regular meetings.

Audit Committee submits inspections and recommendations collected about its activity, task and responsibility fields to Chairman of the Board of Directors.

#### **Committee Meetings**

Audit Committee meets at least four times a year on a "once every three months at minimum" basis at Company head office or another location over the invitation of Audit Committee Chairman. Committee can be called for extraordinary meeting by Chairman of the Board of Directors of Chairman of the Committee. Auditors and directors can hold meeting with two special agenda.

During the twelve months period of 2016, Audit Committee came together four times on the dates of 25<sup>th</sup> February 2016, 4<sup>th</sup> May 2016, 9<sup>th</sup> August 2016 and 2<sup>nd</sup> November 2016, reviewed and approved internal audit reports. Committee submitted report to the Board of Directors about the authenticity and accuracy of the following reports: at the 25<sup>th</sup> February 2016 meeting, consolidated(conglomerate) financial reports that went through the independent audit of 2015, dated 31<sup>st</sup> December 2015 and shared with the public on the same date; at the 4<sup>th</sup> May 2016 meeting, consolidated financial reports that didn't go through the first three months independent audit of 2016, dated 31<sup>st</sup> March 2016 and shared with the public on the same date; at 9<sup>th</sup> August 2016 meeting, consolidated financial reports that went through six months limited audit, dated 30<sup>th</sup> June 2016 and shared with the public on the same date; at the 2<sup>nd</sup> November 2016 meeting, consolidated financial reports that didn't go through the nine months independent audit of 2016, dated 30<sup>th</sup> September 2016 and shared with the public on the same date.

#### **INTERNAL AUDIT DEPARTMENT**

Company Internal Audit Department directly reports to the Audit Committee that consists of members of the Board of Directors within the Company organization structure according to independency principle. Internal control mechanism is under the responsibility of Executive Committee and management of the affiliated companies, it is coordinated and audited by Company Internal Audit Department.

As a result of the Quality Assurance Reports (QAR) evaluation carried out by Independent audit company KPMG (Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. / Akis Independent Audit and Independent Accounting and Financial Consultancy Inc.) in 2014 within the direction of International Internal Audit Institute (IIA) criteria, it is documented that the activities of the Internal Audit Department are in compliance with International Internal Audit Standards.

Duties of the Internal Audit Department are checking the reliability and accuracy of financial statements of Company and affiliated companies ensuring that the activities will be carried out in compliance with laws and ethics rules accepted by the Company, contributing to finding solutions that decreases risks to minimum or resolves them completely by analyzing the processes and inspecting potential risks in order to increase the efficiency of the operations. Internal Audit Department is responsible with reporting to Audit Committee on a periodical basis.

Audit reports, which are issued as a result of audit works carried out by Internal Audit Department, are submitted to Senior Management and to Board of Directors via Audit Committee, actions, which are taken for the issues inspected, are followed by Internal Audit Department through the year. Also; Kordsa Board of Directors continuously surveys the activities of Internal Audit Department through the presentations made by Internal Audit Department on quarterly periods via Audit Committee.

Internal Audit Department held meetings with Audit Committee 4 times during the twelve months of 2016 on the dates of 18<sup>th</sup> March 2016, 24<sup>th</sup> June 2016, 23<sup>rd</sup> September 2016 and 16<sup>th</sup> December 2016.

#### **CORPORATE GOVERNANCE COMMITTEE, MEMBERS OF THE COMMITTEE AND WORKING PRINCIPLES**

<b>Name Surname</b>	<b>Duty</b>	<b>Nature of Membership to Board of Directors and Senior Management</b>
Atıl SARYAL	Chairman of the Corporate Governance Committee	Independent Member of the Board of Directors Member of the Audit Committee Chairman of the Early Detection of Risk Committee
Hüsnü Ertuğrul ERGÖZ	Member of the Corporate Governance Committee	Independent Member of the Board of Directors Chairman of Audit Committee Member of the Early Detection of Risk Committee
Neriman ÜLSEVER	Member of the Corporate Governance Committee	Deputy Chairman of Board of Directors (Executive) Member of the Early Detection of Risk Committee
Barış ORAN	Member of the Corporate Governance Committee	Member of Board of Directors
Fatma Arzu ERGENE	Member of the Corporate Governance Committee	Assistant General Manager, Assistant Financial Affairs and General Manager, South America (SA) (Senior Executive of Investor Relations Department)

### **Corporate Governance Committee**

This Committee, which is formed in compliance with Corporate Governance Principles in force of Capital Markets Board (SPK), was founded with the decision of Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş. Board of Directors on the date of 24.04.2012 and with decision number 979 and it was approved by Internal Regulations (Bylaw).

In compliance with the criteria determined within the scope of II-17.1 "Corporate Governance Notification" of Capital Markets Board, current "4.2. Members" title of the Internal Regulations of Corporate Governance Committee was revised and approved with the decision of Board of Directors dated 23.03.2016 and numbered 2016/11.

Pursuant to provision of 4.5. Committees Formed within the Structure of Board of Directors of "Corporate Governance Notification" II-17.1, which came into force by Capital Markets Board on the date of 3rd January 2014 after being published in issue 28871 of Official Gazette, Chairman of the Corporate Governance Board is appointed among independent members by the Company Board of Directors.

Corporate Governance Board consists of maximum five members (including Chairman) and two rapporteur appointed by Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş. Board of Directors in accordance with "Corporate Governance Principles" of SPK.

### **Structure and Liability Fields of the Committee**

At the 2014 Shareholders Ordinary General Assembly dated 24<sup>th</sup> March 2015, elected Independent Members of the Board of Directors Atıl SARYAL and Hüsnü Ertuğrul ERGÖZ, elected Members of the Board of Directors Neriman ÜLSEVER and Seyfettin Ata KÖSEOĞLU and Assistant Financial Affairs and General Manager of the Company Fatma Arzu ERGENE were chosen for Membership to Corporate Governance Committee with the decision of Board of Directors dated 24<sup>th</sup> March 2015 and numbered 2015/13.

➤ With the decision of Corporate Governance Committee dated 24<sup>th</sup> June 2016 and numbered 2016/3 and the decision of Board of Directors dated 24<sup>th</sup> June 2016 and numbered 2016/20, the issue of Barış ORAN to be appointed to the available Memberships of Board of Directors and Corporate Governance Committee as a result of the resignation of Seyfettin Ali KÖSEOĞLU, who resigned from Memberships of Company Board of Directors and Corporate Governance Committee on the dates of 24.06.2016, for the duty period of the left member and this matter to be submitted for the approval of partners(shareholders) during the first General Assembly that will be made, are submitted for information of shareholders and beneficiaries via Public Disclosure Platform and Company web site.

(\*) *With the decision of the Corporate Governance Committee dated 2<sup>nd</sup> January 2017 and numbered 2017/1 and decision of Board of Directors dated 2<sup>nd</sup> January 2017 and numbered 2017/1, Board of Directors Deputy Chairman Neriman ÜLSEVER resigned from the positions of Deputy Chairman and Member of Board of Directors on the date of 2nd January 2017, Barış ORAN was elected for Deputy Chairman of Board of Directors. At the same time, Board of Directors Deputy Chairman Barış Oran was elected for Membership to Early Detection of the Risk Committee and Board of Directors Member Fezal OKUR ESKİL was elected for Membership of Corporate Governance Committee.*

Members consist of people with adequate knowledge and experience on the matters of Corporate Governance among members who has and has not direct executive functions, tasked within Board of Directors and among ones who is with independent member title, tasked directly with executive functions and with company senior executive titles.

Corporate Governance Committee takes on the duties of **Nomination Committee** and **Remuneration Committee**.

This committee inspects whether the Company Corporate Governance Principles are applied or not within the company, the reasons if not they are applied, and conflicts of interests that occurs because of not completely following these principles and it makes recommendations to Board of Directors about improvements on corporate governance applications.

Corporate Governance Committee holds meetings at least 4 times a year.

## Committee Meetings

Agenda of the meeting is determined by the Committee Chairman.

Members and shareholders inform Corporate Governance Committee Chairman via Rapporteurs about the matters that they want to be included to the agenda.

Meetings are held at least four times a year at dates and locations found suitable by the Chairman. At the beginning of each year, annual meeting calendar of the Corporate Governance Committee is determined by the Committee Chairman and it is shared by all members.

Corporate Governance Board puts all the work it carries out in writing and keeps the records; submits all information regarding its work and reports including the meeting results to Board of Directors.

People, whom seems to be appropriate by the Chairman, can attend to the meetings.

During the twelve months period of 2016, Corporate Governance Committee held meetings 5 times on the dates of 23<sup>rd</sup> February 2016, 18<sup>th</sup> March 2016, 24<sup>th</sup> June 2016, 23<sup>rd</sup> September 2016 and 16<sup>th</sup> December 2016. At the 17<sup>th</sup> meeting held on the date of 23<sup>rd</sup> February 2016, Corporate Governance Committee accepted the Investor Relations Department 2015 Report about their activities carried out within the 2015 activity period, prepared by the Investor Relations Department, which carries out its work directly depending on Company Finance and Purchasing Deputy Chairman, who enables communication between Company partnerships and investors, within the scope of 11<sup>th</sup> provision of SPK II-17.1 Corporate Governance Notification.

At 17<sup>th</sup> meeting dated 23<sup>rd</sup> February 2016, at 18<sup>th</sup> meeting dated 18<sup>th</sup> March 2016, at 19<sup>th</sup> meeting dated 24<sup>th</sup> June 2016, at 20<sup>th</sup> meeting dated 23<sup>rd</sup> September 2016 and at 21<sup>th</sup> meeting dated 16<sup>th</sup> December 2016; Corporate Governance Committee inspected that maximum care was shown for compliance with provisions of Commercial Code, SPK Code, Tax Laws and other regulations, provisions of these regulations were applied correctly and consistently by reviewing company applications; reports of the periods in question were accepted as they were submitted to Board of Directors at Board of Directors meeting numbered 2016/4 dated 23<sup>rd</sup> February 2016, 2016/9 dated 18<sup>th</sup> March 2016, 2016/19 dated 24<sup>th</sup> June 2016, 2016/25 dated 23<sup>rd</sup> September 2016 and 2016/27 dated 16<sup>th</sup> December 2016.

## EARLY DETECTION OF THE RISK COMMITTEE, MEMBERS OF THE COMMITTEE AND WORKING PRINCIPLES

Name Surname	Duty	Nature of Membership to Board of Directors
Atıl SARYAL	Chairman of the Early Detection of the Risk Committee	Independent Member of the Board of Directors Member of Audit Committee Chairman of Corporate Governance Committee
Hüsnü Ertuğrul ERGÖZ	Member of the Early Detection of the Risk Committee	Independent Member of the Board of Directors Chairman of Audit Committee Member of Corporate Governance Committee
Neriman ÜLSEVER	Member of the Early Detection of the Risk Committee	Board of Directors Deputy Chairman (Executive) Member of Corporate Governance Committee

## Early Detection of the Risk Committee

This Committee, which is formed pursuant to Turkish Commercial Code No. 6102 and effective Corporate Governance Principles of Capital Markets Board (SPK), was founded by the decision dated 02.08.2013 and numbered 2013/15 of Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş.'s Board of Directors and its Internal Regulations(Bylaw) is approved.

### **Structure and Liabilities of the Committee**

At the 2014 Shareholders Ordinary General Assembly dated 24<sup>th</sup> March 2015, elected Independent Members of the Board of Directors Atıl SARYAL and Hüsni Ertuğrul ERGÖZ, elected Members of the Board of Directors Neriman ÜLSEVER were chosen for Membership to Early Detection of the Risk Committee with the decision of Board of Directors dated 24<sup>th</sup> March 2015 and numbered 2015/13. Members consist of people with adequate knowledge and experience on the matters of Corporate Governance among members who has and has not direct executive functions, tasked within Board of Directors and among ones with independent member title.

Early Detection of the Risk Committee carries out its work with purposes of description, early detection, inspection of the risks that may put Company's existence, development and continuity into danger, formation of models and management system for prevention of crisis, application of the required precautions related with risks and management of the risks.

Early Detection of the Risk Committee holds meetings at least 4 times a year.

### **Committee Meetings**

Agenda of the meeting is determined by the Committee Chairman.

Members and shareholders inform Early Detection of the Risk Committee Chairman via Rapporteurs about the matters that they want to be included to the agenda.

Meetings are held at least four times a year at dates and locations found suitable by the Chairman. At the beginning of each year, annual meeting calendar of the Early Detection of the Risk Committee is determined by the Committee Chairman and it is shared by all members.

With the purpose of managing risks efficiently, risk reports are reviewed by Early Detection of the Risk Committee and submitted to Board of Directors once in every two months.

Early Detection of the Risk Committee held meetings 6 times during the twelve months period of 2016 on the dates of 18<sup>th</sup> March 2016, 24<sup>th</sup> June 2016, 22<sup>nd</sup> July 2016, 23<sup>rd</sup> September 2016, 21<sup>st</sup> October 2016 and 16<sup>th</sup> December 2016.

At 15<sup>th</sup> meeting dated 18<sup>th</sup> March 2016, at 16<sup>th</sup> meeting dated 24<sup>th</sup> June 2016, at 17<sup>th</sup> meeting dated 22<sup>nd</sup> July 2016, at 18<sup>th</sup> meeting dated 23<sup>rd</sup> September 2016, at 19<sup>th</sup> meeting dated 21<sup>st</sup> October 2016, and at 20<sup>th</sup> meeting dated 16<sup>th</sup> December 2016; Early Detection of the Risk Committee inspected that maximum care was shown for compliance with provisions of Commercial Code, SPK Code, Tax Laws and other regulations, provisions of these regulations were applied correctly and consistently by reviewing company applications; reports of the periods in question were accepted as they were submitted to Board of Directors at Board of Directors meeting numbered 2016/9 dated 18<sup>th</sup> March 2016, 2016/19 dated 24<sup>th</sup> June 2016, 2016/24 dated 9<sup>th</sup> August 2016, 2016/25 dated 23<sup>rd</sup> September 2016, 2016/26 dated 2<sup>nd</sup> November 2016 and 2016/27 dated 16<sup>th</sup> December 2016.

## **5.4. Risk Management and Internal Control Mechanism**

### **Kordsa Corporate Risk Management**

Kordsa formed Risk Management company standards (CFN.007) regarding Corporate Risk Management and published it within the organization on the date of 01.07.2012. The standard in question is reviewed by Kordsa Executive Committee every year. Company standards describe the applications on the following topics and guarantees them.

- Kordsa Risk Management Approach
- Allotment and Compliance of Responsibilities
- Inspection of the risks
- Evaluation of the risks
- Formation of risk monitoring reports
- Prioritization of the risks

- Risk action plans
- Monitoring and reporting risks
- Audit of risks

Business sustainability management, which will form the basic foundation of Company's corporate risk management applications, was turned into a management standard. Partnerships of Kordsa all around the world were reviewed on country and facility detail-basis, risks were inspected, required actions and risk prevention plans were described. Crisis Emergency Situations Management standards that involves Company's all facilities were formed.

Country-sourced risks were described on all facility diffractions, and CFN. 007 Risk Management were prioritized in compliance with company standards. Action plans intended for management of risks that has high risk score were formed.

Kordsa Executive Committee took matters of Corporate Risk Management as a fixed agenda of monthly meetings, country risks and important risks that has an impact on Kordsa were continuously monitored.

Kordsa Executive Committee prioritized the risks, to which Kordsa is exposed, and required work for monitoring important risks with Critical Risk Indicator were completed.

Early Detection of the Risk Committee, formed by Kordsa Board of Directors, carries out its work with the purpose of describing, early detection, inspection of risks that may put Company's existence, development and continuity into danger, formation of models and management systems for prevention of crisis, application of necessary precautions related with risks and management of the risks.

With the purpose of efficient management of the risks, risk reports are reviewed by Early Detection of the Risk Committee with the coordination of Assistant Financial Affairs and General Director and submitted to Board of Directors in every two months.

With the purpose of following and auditing of risks inspected by Corporate Risk Management System, risk management reports were included into audit plans in coordination with Audit Department, all audits were carried out according to plan.

Kordsa started global insurance management program for all of its assets around the world as a supplementary and in parallel with corporate risk management applications. With this structure, risk management and insurance management, which is the transfer tool of risks, are actively integrated.

### **5.5. Strategical Objectives of the Company**

Company's Board of Directors determined the vision of the Company and they shared this with public as written form in activity report and at the same time, over the web site that can be accessed through <http://www.kordsa.com> web site.

Board of Directors determines the three-year strategical objectives by discussing with Senior Management. Annual budgets prepared within the framework of this strategical objectives are approved.

Board of Directors gets one-to-one information about process of application for the decisions taken in parallel with the comparative presentations taken from Company authorities at meetings. During these presentations, in addition to comparison between the budget and actual of the current year, comparison between the same periods of the previous years is submitted to information of Board of Directors in comparison.

Kordsa has strategical initiatives within the framework of the undermentioned titles with the vision of "Kordsa at business fields with high added-value for sustainable growth".

Strategical Initiatives are shared with public on annual activity reports and corporate web site that can be accessed through <http://www.kordsa.com>.

Kordsa operationalized "Composite Technologies Center of Excellence" on the 2<sup>nd</sup> quarter of 2016. The center, which was brought to life with cooperation between Sabancı University and Kordsa, aims to provide services to all shareholders in all steps of the loop that starts with basic research and continues with prototype production and ends with mass production. Together with this business model, which was brought to life for the first time in Turkey, researchers, designers, engineers,

individuals responsible with production process and employees, doctoral students, researchers after postgraduate, lecturers, start-up company entrepreneurs will be found in the same ecosystem. On account of this ecosystem formed at Composite Technologies Center of Excellence, the path to shaping the production in accordance with customer requirements and demands will be opened.

All news regarding these developments, which are the most important signs of technological development, innovation and entrepreneurship, are shared with beneficiaries over press and Company web site.

Continuous improvement projects with the aim of increase in efficiency and performance in 2016 took place in the front rows of the agenda, this will continue in the upcoming periods.

The Company also develops systems that can provide opportunities for continuous development and business excellence and applies human resource development planning in parallel with global strategies while realizing all these strategical objectives.

## **5.6. Financial Rights**

General Assembly determines the daily allowance and the remuneration that will be made to Board of Directors Chairman and Members.

Remuneration made to senior executives are shared with public with the footnotes of financial statements.

Also, there is detailed information in the footnote no.26 of the explanatory report related with the Consolidated Financial Statements belonging to 1<sup>st</sup> January – 31<sup>st</sup> December accounting period that went through independent audit.

Stock (share) options or remuneration plans depending on company performance aren't used for remuneration of Independent Members of the Board of Directors.

In compliance with 4.6.2. obligatory Corporate Governance principle of SPK, remuneration principles of Board of Directors Members and senior executives are put into written form for our Company's Board of Directors Members and senior executives.

This matter was submitted for information of shareholders as a separate agenda topic during the 2011 Shareholders Ordinary General Assembly dated 18<sup>th</sup> April 2012, an opportunity of opinion expression was given to shareholders on the matter.

This Wages Policy, which is formed by the Company for Board of Directors Members and senior executives, describes the remuneration systems and applications of Board of Directors Members and senior executives within the scope of the ones with executive's responsibilities in SPK regulations. The Wages Policy has been shared with public over the Company web site that can be accessed through <http://www.kordsa.com> starting from 27<sup>th</sup> March 2012.

As there wasn't a debt of Board of Directors Members to the Company transferred from previous years, during the twelve months period of 2016, Company didn't give any loans to any members of the Board of Directors, didn't provide any credit facilities, didn't provide any available loans through personal credits via third people or didn't provide any securities in terms of guarantees (bails).

During the 2015 Shareholders Ordinary General Assembly held on the date of 23<sup>rd</sup> March 2016; it was decided that 3.500 TL monthly gross wage will be paid to Members of the Board of Directors during their duty term.

## **Appendixes:**

APPENDIX-1 : Independence Declaration of Atıl SARYAL, Independent Member of the Board.

APPENDIX-2 : Independence Declaration of Hüsnü Ertuğrul ERGÖZ, Independent Member of the Board.

## INDEPENDENCE DECLARATION

I declare that I am a candidate for performing the duties of "independent member" at **Kordsa Global Endüstriyel İplik ve Kord Bezi San. ve Tic. A.Ş.** (Company) Board of Directors, within the scope of regulations, articles of association and criteria stated in Corporate Governance Notification (II-17.1) published by Capital Markets Board, within this framework;

**a)** Myself, my wife and my blood and marriage relatives (up to 2<sup>nd</sup> degree) don't have an employment relationship, that allows undertaking of important duties and responsibilities at executive position within the last five years, with the Company, with partnerships, which has management control according to "TFRS 10" Standard of the Company or important degree of impact according to "TMS 28" Standard, partners that has management control of the Company in their hands or has an important degree of impact (TMS 28) within the Company, and legal entities that has management control of such partners, I don't own more than 5% of their capital or voting rights or privileged shares on my own or together with aforementioned people, and we don't have a trade relation with an essential qualification (TMS 28),

**b)** Within the last five years, I wasn't a partner (5% and above), an employee with a position of an executive that can be tasked with important duties and responsibilities or a member for board of directors, at companies, to which or from which the Company purchased or sold important services or products, during the period of sales and purchases of those products and services, mainly Company audit (including tax audits, statutory audits, internal audits), rating and consultancy services, within the scope of contracts made,

**c)** I have the occupational training, knowledge and experience level that is suitable with the tasks I will perform due to becoming an independent member of the board of directors,

**ç)** I am not working/I won't work at public institutions and public establishments on a full time basis currently/after being elected as a member, except being a university academician provided that it is in compliance with the affiliated regulations,

**d)** I am a resident of Turkey in accordance with Tax Income Law dated 31/12/1960 and numbered 193,

**e)** I have strong ethical standards, occupational reputation and experience that will make positive contributions to the Company activities, make me stand neutral in conflicts of interest between the Company and the shareholders, allow me to make decisions with freedom by paying attention to rights of beneficiaries,

**f)** I will spare time for Company work that will allow me to monitor operation of Company activities and perform complete requirements of the tasks that I am appointed for,

**g)** I wasn't a member of the Board of Directors of the Company more than six months within the last ten years,

**ğ)** I am not tasked with being an independent member of board of directors more than three of the companies, which the Company or its partners that has management control and that keeps the Company's management control under their hands and more than a total of five companies which are publicly traded at the exchange,

**ı)** I am not registered and announced on behalf of legal entity that is elected as a member of Board of Directors,

I submit this information to Board of Directors, General Assembly, our shareholders and all beneficiaries.

23.02.2015

(signature)

Atıl SARYAL



## INDEPENDENCE DECLARATION

I declare that I am a candidate for performing the duties of "independent member" at **Kordsa Global Endüstriyel İplik ve Kord Bezi San. ve Tic. A.Ş.** (Company) Board of Directors, within the scope of regulations, articles of association and criteria stated in Corporate Governance Notification (II-17.1) published by Capital Markets Board, within this framework;

**a)** Myself, my wife and my blood and marriage relatives (up to 2<sup>nd</sup> degree) don't have an employment relationship, that allows undertaking of important duties and responsibilities at executive position within the last five years, with the Company, with partnerships, which has management control according to "TFRS 10" Standard of the Company or important degree of impact according to "TMS 28" Standard, partners that has management control of the Company in their hands or has an important degree of impact (TMS 28) within the Company, and legal entities that has management control of such partners, I don't own more than 5% of their capital or voting rights or privileged shares on my own or together with aforementioned people, and we don't have a trade relation with an essential qualification (TMS 28),

**b)** Within the last five years, I wasn't a partner (5% and above), an employee with a position of an executive that can be tasked with important duties and responsibilities or a member for board of directors, at companies, to which or from which the Company purchased or sold important services or products, during the period of sales and purchases of those products and services, mainly Company audit (including tax audits, statutory audits, internal audits), rating and consultancy services, within the scope of contracts made,

**c)** I have the occupational training, knowledge and experience level that is suitable with the tasks I will perform due to becoming an independent member of the board of directors,

**ç)** I am not working/I won't work at public institutions and public establishments on a full time basis currently/after being elected as a member, except being a university academician provided that it is in compliance with the affiliated regulations,

**d)** I am a resident of Turkey in accordance with Tax Income Law dated 31/12/1960 and numbered 193,

**e)** I have strong ethical standards, occupational reputation and experience that will make positive contributions to the Company activities, make me stand neutral in conflicts of interest between the Company and the shareholders, allow me to make decisions with freedom by paying attention to rights of beneficiaries,

**f)** I will spare time for Company work that will allow me to monitor operation of Company activities and perform complete requirements of the tasks that I am assigned for,

**g)** I wasn't a member of the Board of Directors of the Company more than six months within the last ten years,

**ğ)** I am not tasked with being an independent member of board of directors more than three of the companies, which the Company or its partners that has management control and that keeps the Company's management control under their hands and more than a total of five companies which are publicly traded at the exchange,

**ı)** I am not registered and announced on behalf of legal entity that is elected as a member of Board of Directors,

I submit this information to Board of Directors, General Assembly, our shareholders and all beneficiaries.

23.02.2015

(signature)

Hüsnü Ertuğrul ERGÖZ



**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ**  
**SANAYİ VE TİCARET ANONİM ŞİRKETİ**  
(KORDSA GLOBAL INDUSTRIAL FIBER AND CORD FABRIC INDUSTRY AND TRADE INC.)

**Dividend (Profit Distribution) Recommendation for 2016:**

With the 3<sup>rd</sup> March 2017 dated and 2017/10 numbered decision of Board of Directors,

According to Company financial statements of 01.01.2016-31.12.2016 accounting period, which was audited by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi (DRT Independent Audit and Independent Accounting and Financial Consultancy Inc.) (Member of DELOITTE TOUCHE TOHMATSU LIMITED) and was prepared by our Company in compliance with II-14.1 "Notification of Principles related with Financial Reporting at Capital Markets" of Capital Markets Board, a consolidated period profit of **143.080.801,00 TL** belonging to parent partnership was achieved.

Within this context, it has been decided that; the aforementioned 2016 profit distribution(appropriation) statement, as the result of the negotiations, to be approved,

Distributable net profit of the period, in the amount of **139.787.588,40 TL**, after the deduction of general legal contingency reserves (1<sup>st</sup> arrangement) in compliance with SPK notifications and as a requirement of 35<sup>th</sup> provision of articles of incorporation, legal obligations and non-controlling interests from the 2016 consolidated period profit calculated in compliance with SPK Regulations, to be distributed as follows,

First Profit Share	:	9.726.453,80 TL
Second Profit Share	:	47.935.854,91 TL
<b>Total Gross Profit Share</b>	:	<b>57.662.308,71 TL</b>
General Legal Contingency Reserves (2 <sup>nd</sup> Arrangement)	:	4.793.585,49 TL
Excess Reserve For Contingencies	:	<b>77.331.694,20 TL</b>

As a result of the profit distribution to be made in compliance with aforementioned principles, when our legal records prepared in compliance with provisions of Tax Procedure Law are taken as basis;

- **57.662.308,71 TL** gross profit distribution that will be distributed to shareholders; to be completely covered from net distributable period profit,
- **115.145,16 TL** to be reserved as excess reserve for contingencies,

So, for the year 2016, to shareholders that represents the capital of 194.529.076,00 TL, in accordance with their legal conditions, a total of **57.662.308,71 TL** in the ratio of **29,642%** (Gross), **25,1957%** (Net) Profit Share to be distributed in cash, starting from the date of **21<sup>st</sup> April 2017** and this matter to be submitted to approval of Ordinary General Assembly that will be held on the date of 27<sup>th</sup> March 2017

<b>PROFIT SHARE RATIOS TABLE</b>					
	<b>TOTAL DISTRIBUTED PROFIT SHARE</b>		<b>TOTAL DISTRIBUTED PROFIT SHARE / NET DISTRIBUTABLE PERIOD PROFIT</b>	<b>PROFIT SHARE THAT FALLING FOR SHARE WITH 1 TL NOMINAL VALUE</b>	
	<b>CASH (TL)</b>	<b>FREE OF CHARGE (TL)</b>	<b>RATIO (%)</b>	<b>AMOUNT (TL)</b>	<b>RATIO (%)</b>
<b>GROSS</b>	<b>57.662.308,71</b>	-	<b>41,25</b>	<b>0,296420</b>	<b>29,6420</b>
<b>NET*</b>	<b>49.012.962,40</b>	-	<b>35,06</b>	<b>0,251957</b>	<b>25,1957</b>

\* On case that the distributed gross 57.662.308,71 TL profit share is distributed to people (fully responsible real entities, limited taxpayer real entities and limited taxpayer institutions except ones that obtains profit share via a workplace or a permanent representative in Turkey) in the scope of provisions 94/6-b-i and ii of Income Tax Law (GVK.), a withholding deduction over the gross amount with a ratio of 15% will be implemented (avoidance of double taxation agreements should be reviewed separately)

**INDEPENDENT AUDIT REPORT  
EARLY RISK DETECTION SYSTEM AND COMMITTEE**

**To Board of Directors of,  
Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş.**

We audited the 2016 activities of early risk detection system and the committee founded by Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş. and its affiliated companies (from now on, will be referred as “Group” all together)

*Responsibility of the Board of Directors*

Board of Directors, in compliance with 1<sup>st</sup> sub-section of 378<sup>th</sup> provision of Turkish Commercial Code (“TTK”) no. 6102, is obliged to form a committee, execute and develop the system with the purpose of risk management and implementation of necessary precautions and solutions for early detection of the reasons that puts Group’s existence, development and continuity into danger.

*Responsibility of the Auditor*

Our responsibility is to come to a conclusion related with the early risk detection system and committee based on the audit that we carried out. The audit that we performed was carried out in compliance with TTK (Turkish Commercial Code), “Principles related with Audit Report about Early Risk Detection System and Committee” published by Public Oversight, Accounting and Auditing Standards Authority (“KGK”) and ethical rules. These standards requires the determination of whether an early risk detection system and committee was formed by Group, and an evaluation to see whether the system and committee operations in compliance with 378<sup>th</sup> provision of TTK by our party. Conformability of the solutions offered by the early risk detection committee against risks, and implementations made by the managements against the risks aren’t included in the scope of our audit.

*Information regarding Early Risk Detection System and Committee*

Chairmanship of the “Early Detection of the Risk Committee” of the Group is executed by Independent Member of the Board of Directors Atıl Saryal, members in the committee are Independent Board of Directors Member Hüsnu Ertuğrul Ergöz and Deputy Chairman of the Board of Directors Neriman Ülsever.

Committee came together 6 times in 2016 on the dates of 18<sup>th</sup> March 2016, 24<sup>th</sup> June 2016, 22<sup>nd</sup> July 2016, 23<sup>rd</sup> September 2016, 21<sup>st</sup> October 2016 and 16<sup>th</sup> December 2016.

*Conclusion*

As the conclusion of the audit that we carried out, it has been understood that all important aspects of 2016 activities belonging to early risk detection system and the committee of Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş. and its affiliated companies are adequate within the framework of 378<sup>th</sup> provision of TTK.

**DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.**  
(DRT INDEPENDENT AUDIT AND, INDEPENDENT ACCOUNTING AND FINANCIAL CONSULTANCY INC.)  
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Zere Gaye Şentürk, SMMM (Independent Accountant and Financial Advisor)  
Sorumlu Denetçi (Cap Auditor in Charge)  
Istanbul, 20<sup>nd</sup> February 2017

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ**  
**SANAYİ VE TİCARET ANONİM ŞİRKETİ**  
(KORDSA GLOBAL INDUSTRIAL FIBER AND CORD FABRIC INDUSTRY AND TRADE INC.)

**AGENDA OF**  
**2016 GENERAL ASSEMBLY OF SHAREHOLDERS**  
**THAT WILL TAKE PLACE ON 27<sup>th</sup> MARCH 2017**

**AGENDA**

1. Opening and formation of Meeting Moderation,
2. Reading and Discussion of 2016 Board of Directors activity report,
3. Reading of conclusion sections belonging to 2016 auditor reports,
4. Reading, discussion and approval of 2016 financial statements,
5. Informing and approval of General Assembly regarding donations and aids made in 2016,
6. Exoneration of Board of Directors members due to their 2016 activities,
7. Assignment of utilization of 2016 profit, ratios of distributed profits and dividend shares,
8. Assignment of remuneration, daily allowance, perks and bonuses for Board of Directors,
9. Election of Board of Directors members and determination of their duty terms,
10. Election of independent auditor,
11. Assignment of limit for donations that will be made by the Company in 2017,
12. Approval of amendments on 2<sup>nd</sup>, 5<sup>th</sup> and 26<sup>th</sup> provisions of Company Articles of Association based upon the permission granted by Capital Markets Board and Ministry of Customs Trade,
13. Termination of Internal Directive No.1 regarding the General Assembly Operation Principles and Procedures, Approval of Internal Directive No.2 regarding the General Assembly Operation Principles and Procedures prepared by Board of Directors,
14. Sanctioning of Board of Directors chairman and members for transactions written on 395<sup>th</sup> and 396<sup>th</sup> provisions of Turkish Commercial Code.

**Meeting Date:** 27<sup>th</sup> March 2017, Monday

**Meeting Hour:** 10:00

**Meeting Place:** Sabanci Center, Sadika Ana 2 Meeting Hall, 4. Levent, 34330 Besiktas - ISTANBUL

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK  
VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**

**CONVENIENCE TRANSLATION INTO ENGLISH OF  
CONSOLIDATED FINANCIAL STATEMENTS  
AT 31 DECEMBER 2016 TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT**

**(CONVENIENCE TRANSLATION OF  
INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH)**

**INDEPENDENT AUDITOR'S REPORT**

**To the Board of Directors of  
Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş.**

**Reports for the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş. ("the Company") and its subsidiaries (together will be referred as "the Group"), which comprise the consolidated balance sheet as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the standards on auditing issued by Capital Markets Board and Independent Auditing Standards which is a part of Turkish Auditing Standards published by Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş. and its subsidiaries as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Turkish Accounting Standards.

## *Additional Paragraph for US Dollar (“USD”) Translation*

“As explained in Note 2 to the consolidated financial statements, USD amounts presented in the accompanying consolidated financial statements have been included solely for the convenience of the reader of the consolidated financial statements, USD amounts do not form part of these consolidated financial statements and have been translated from Turkish Lira (“TL”), as a matter of arithmetic computation only, at the official USD bid rate announced by the Central Bank of the Republic of Turkey (“CBRT”) at 31 December 2016 for the consolidated balance sheet and the official USD average CBRT bid rate of the year 2016 for the consolidated statement of profit or loss and consolidated statement of cash flows. The resulting difference from the use of average CBRT rate for the translation of consolidated statement of profit or loss and the use of bid rate at the balance sheet date for the translation of the consolidated balance sheet is included in translation reserves under shareholders’ equity in accordance with the translation requirements of TAS 21 “The Effects of Changes in Foreign Exchange Rates” when the financial statements are presented in a currency other than the functional currency.”

## **Reports on Other Legal and Regulatory Requirements**

In accordance with paragraph four of Article 398 of Turkish Commercial Code No. 6102 (“TCC”), the auditor’s report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 20 February 2017.

In accordance with paragraph four of Article 402 of TCC; nothing has come to our attention that may cause us to believe that the Group’s set of accounts prepared for the period 1 January-31 December 2016 does not comply with the code and the provisions of the Company’s articles of association in relation to financial reporting

In accordance with paragraph four of Article 402 of TCC, the Board of Directors provided us all the required information and documentation in terms of audit.

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

Zere Gaye Şentürk, SMMM  
Partner

İstanbul, 20 February 2017

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**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**AUDITED CONSOLIDATED FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2016**

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

		Current Year 31 December 2016	Prior Year 31 December 2015	Current Year 31 December 2016	Prior Year 31 December 2015
	Notes	USD (*)	USD (*)		
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and Cash Equivalents	4	10.962.277	6.116.210	38.578.445	17.783.491
Financial Investments		32.179	32.179	113.245	93.564
<i>Available- for-sale financial assets</i>	5	32.179	32.179	113.245	93.564
Trade Receivables (net)		105.768.444	102.110.896	372.220.309	296.897.640
<i>Trade Receivables from Related Parties</i>	26	5.951.576	4.707.001	20.944.786	13.686.077
<i>Trade Receivables from Third Parties</i>	7	99.816.868	97.403.894	351.275.523	283.211.563
Other Receivables	8	3.236.655	5.022.261	11.390.436	14.602.727
Derivative Financial Instruments		347.100	4.207.473	1.221.515	12.233.648
<i>Derivative financial assets held for hedges</i>	28	347.100	4.207.473	1.221.515	12.233.648
Inventories	9	152.700.519	146.073.921	537.383.667	424.724.533
Prepaid Expenses	10	5.487.597	5.335.726	19.311.952	15.514.156
Assets Related to Current Tax	24	-	842.882	-	2.450.765
Other Current Assets	17	12.259.190	15.884.723	43.142.543	46.186.420
<b>Subtotal</b>		<b>290.793.962</b>	<b>285.626.270</b>	<b>1.023.362.112</b>	<b>830.486.944</b>
Non-Current Assets Held For Sale	30	6.189.015	39.283.645	21.780.383	114.221.125
<b>Current Assets</b>		<b>296.982.978</b>	<b>324.909.915</b>	<b>1.045.142.495</b>	<b>944.708.069</b>
<b>Non-Current Assets</b>					
Financial Investments		109.710	99.941	386.091	290.589
<i>Available- for-sale financial assets</i>	5	109.710	99.941	386.091	290.589
Other Receivables	8	5.790.726	4.539.040	20.378.723	13.197.714
Investment Property	13	11.401.373	9.695.574	40.123.712	28.190.850
Property, Plant and Equipment	11	345.485.459	359.438.129	1.215.832.426	1.045.102.304
Intangible Assets		21.640.547	26.583.633	76.157.412	77.294.572
<i>Goodwill</i>	14	12.956.117	15.681.375	45.595.167	45.595.167
<i>Other Intangible Assets</i>	12	8.684.430	10.902.258	30.562.245	31.699.405
Prepaid Expenses	10	21.728.666	3.179.635	76.467.521	9.245.107
Deferred Tax Assets	24	10.008.859	9.990.026	35.223.175	29.046.999
Other Non-Current Assets	17	9.650.648	9.270.743	33.962.562	26.955.612
<b>Non-Current Assets</b>		<b>425.815.987</b>	<b>422.796.721</b>	<b>1.498.531.622</b>	<b>1.229.323.747</b>
<b>Total Assets</b>		<b>722.798.965</b>	<b>747.706.636</b>	<b>2.543.674.117</b>	<b>2.174.031.816</b>

(\*) US Dollar (“USD”) amounts presented above are translated from Turkish Lira (“TL”) for convenience purposes only, at the official TL exchange rate announced by the Central Bank of the Republic of Turkey (“CBRT”) at 31 December 2016 and 31 December 2015, and therefore do not form part of these consolidated financial statements (Note 2.1).

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

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**AUDITED CONSOLIDATED FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2016**

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

	Notes	Current Year 31 December 2016 USD (*)	Prior Year 31 December 2015 USD (*)	Current Year 31 December 2016	Prior Year 31 December 2015
<b>LIABILITIES</b>					
<b>Short Term Liabilities</b>					
Short Term Borrowings	6	99.977.967	112.203.445	351.842.461	326.242.736
Short Term Portion of Long Term Borrowings	6	6.331.727	11.670.487	22.282.612	33.933.108
Trade Payables		80.766.973	59.178.541	284.235.131	172.067.527
<i>Trade Payables to Related Parties</i>	7	1.839.414	1.404.657	6.473.265	4.084.181
<i>Trade Payables to Third Parties</i>	26	78.927.559	57.773.884	277.761.866	167.983.346
Employee Benefit Obligations	16	1.489.234	1.428.911	5.240.913	4.154.702
Other Payables	8	3.817.543	4.367.101	13.434.699	12.697.782
Deferred Income	10	1.974.550	129.036	6.948.837	375.186
Liability for Period Income Tax	24	1.111.516	-	3.911.647	-
Short Term Provisions		6.600.977	5.144.487	23.230.157	14.958.111
<i>Short Term Provisions for Employee Benefits</i>	16	6.587.320	5.127.958	23.182.097	14.910.051
<i>Other Short Term Provisions</i>		13.657	16.529	48.060	48.060
Other Current Liabilities	17	5.129.135	6.205.916	18.050.451	18.044.320
<b>Subtotal</b>		<b>207.199.622</b>	<b>200.327.924</b>	<b>729.176.908</b>	<b>582.473.472</b>
Non-Current Assets Held For Sale	30	3.329.789	15.795.855	11.718.193	45.928.028
<b>Current Liabilities</b>		<b>210.529.410</b>	<b>216.123.779</b>	<b>740.895.101</b>	<b>628.401.500</b>
<b>Non-Current Liabilities</b>					
Long Term Borrowings	6	45.715.600	66.762.871	160.882.339	194.119.724
Other Payables	8	4.021.062	2.987.799	14.150.921	8.687.324
Long Term Provisions		14.699.236	14.932.764	51.729.552	43.418.506
<i>Long Term Provisions for Employee Benefits</i>	16	14.699.236	14.932.764	51.729.552	43.418.506
Deferred Tax Liabilities	24	29.648.302	28.678.672	104.338.305	83.386.108
<b>Non-Current Liabilities</b>		<b>94.084.200</b>	<b>113.362.107</b>	<b>331.101.117</b>	<b>329.611.662</b>
<b>Total Liabilities</b>		<b>304.613.610</b>	<b>329.485.886</b>	<b>1.071.996.218</b>	<b>958.013.162</b>
<b>SHAREHOLDERS' EQUITY</b>					
<b>Equity Attributable to Owners of the Company</b>		<b>327.951.621</b>	<b>332.398.390</b>	<b>1.154.127.343</b>	<b>966.481.558</b>
Share Capital	18	55.276.505	66.903.658	194.529.076	194.529.076
Share Premium		17.632.660	21.341.607	62.052.856	62.052.856
Other Comprehensive Income or Expenses that Will Not be Reclassified to Profit or Loss		(1.872.503)	(2.251.581)	(6.589.713)	(6.546.696)
<i>Revaluation and Remeasurement Gain / (Loss)</i>		(1.872.503)	(2.251.581)	(6.589.713)	(6.546.696)
<i>Defined Benefit Plans Remeasurement Fund</i>		(1.872.503)	(2.251.581)	(6.589.713)	(6.546.696)
Other Comprehensive Income or Expenses that Will be Reclassified to Profit or Loss		77.108.332	57.138.665	271.359.642	166.136.381
<i>Currency Translation Differences</i>		76.904.186	53.950.377	270.641.212	156.866.115
<i>Gains / losses on hedge</i>		280.911	3.281.200	988.581	9.540.417
<i>Cash Flow Hedge Gains / (Losses)</i>	18	280.911	3.281.200	988.581	9.540.417
<i>Financial Assets Fair Value Reserve</i>		(76.765)	(92.912)	(270.151)	(270.151)
<i>Other Financial Assets Fair Value Reserve</i>		(76.765)	(92.912)	(270.151)	(270.151)
Restricted reserves appropriated from profit		13.288.053	10.578.246	46.763.317	30.757.308
Prior years' profit/losses	18	125.861.379	144.552.802	442.931.364	420.301.726
Net Profit / (Loss) for the Period	18	40.657.195	34.134.993	143.080.801	99.250.907
<b>Non-Controlling Interests</b>	27	<b>90.233.734</b>	<b>85.822.361</b>	<b>317.550.556</b>	<b>249.537.096</b>
<b>Total Equity</b>		<b>418.185.354</b>	<b>418.220.750</b>	<b>1.471.677.899</b>	<b>1.216.018.654</b>
<b>Total Liabilities and Equity</b>		<b>722.798.965</b>	<b>747.706.636</b>	<b>2.543.674.117</b>	<b>2.174.031.816</b>

(\*) US Dollar (“USD”) amounts presented above are translated from Turkish Lira (“TL”) for convenience purposes only, at the official TL average exchange rate announced by the Central Bank of the Republic of Turkey (“CBRT”) at 31 December 2016 and 31 December 2015, and therefore do not form part of these consolidated financial statements (Note 2.1).

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

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**AUDITED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016**

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

	Notes	Current Year 1 January- 31 December 2016 USD (*)	Prior Year 1 January- 31 December 2015 USD (*)	Current Year 1 January- 31 December 2016	Prior Year 1 January- 31 December 2015
<b>PROFIT OR LOSS</b>					
Sales	19	632.321.117	638.013.180	1.908.345.131	1.734.757.837
Cost of Sales (-)	19,20	(500.931.421)	(522.136.565)	(1.511.811.029)	(1.419.689.321)
<b>GROSS PROFIT</b>		<b>131.389.696</b>	<b>115.876.615</b>	<b>396.534.102</b>	<b>315.068.516</b>
General and Administrative Expenses (-)	20	(30.555.773)	(30.410.409)	(92.217.323)	(82.685.902)
Marketing Expenses (-)	20	(26.518.074)	(26.172.369)	(80.031.547)	(71.162.671)
Research and Development Expenses (-)	20	(1.240.619)	(799.111)	(3.744.189)	(2.172.782)
Other Operating Income	21	79.364.634	82.921.896	239.522.465	225.464.634
Other Operating Expenses (-)	21	(72.821.038)	(78.641.951)	(219.773.894)	(213.827.465)
<b>OPERATING PROFIT / (LOSS)</b>		<b>79.618.825</b>	<b>62.774.671</b>	<b>240.289.614</b>	<b>170.684.330</b>
Income From Investing Activities	22	4.859.197	5.690.741	14.665.058	15.473.125
Expenses From Investing Activities (-)	22	(1.378.495)	(559.710)	(4.160.298)	(1.521.852)
<b>OPERATING PROFIT / (LOSS) BEFORE FINANCIAL EXPENSE</b>		<b>83.099.528</b>	<b>67.905.702</b>	<b>250.794.374</b>	<b>184.635.603</b>
Financial Expenses (-)	23	(8.913.165)	(16.178.883)	(26.899.931)	(43.990.383)
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b>74.186.363</b>	<b>51.726.819</b>	<b>223.894.443</b>	<b>140.645.220</b>
Tax expense/income from continuing operations		(12.070.657)	(5.944.801)	(36.429.242)	(16.163.913)
- Current Tax Expense	24	(9.207.357)	(7.128.347)	(27.787.803)	(19.381.975)
- Deferred Tax Income/ (Expense)	24	(2.863.300)	1.183.546	(8.641.439)	3.218.062
<b>PROFIT / (LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>62.115.706</b>	<b>45.782.018</b>	<b>187.465.201</b>	<b>124.481.307</b>
Net profit / (loss) for the period from discontinued operations	30	(3.098.850)	(2.989.036)	(9.352.330)	(8.127.190)
<b>PROFIT / (LOSS) FOR THE PERIOD</b>		<b>59.016.856</b>	<b>42.792.982</b>	<b>178.112.871</b>	<b>116.354.117</b>
<b>PROFIT / (LOSS) ATTRIBUTABLE TO:</b>					
- Non-Controlling Interests		11.607.710	6.290.257	35.032.070	17.103.210
- Owners of the Parent		47.409.145	36.502.724	143.080.801	99.250.907
Earnings (Loss) per share;		2,44	1,88	7,36	5,10
<i>Earnings per share from continuing operations;</i>	25	2,60	2,03	7,84	5,52
<i>Earnings per share from discontinuing operations;</i>	25	(0,16)	(0,15)	(0,48)	(0,42)

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

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**AUDITED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016**

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

	Current Year 1 January- 31 December 2016 USD (*)	Prior Year 1 January- 31 December 2015 USD (*)	Current Year 1 January- 31 December 2016	Prior Year 1 January- 31 December 2015
<b>PROFIT / LOSS FOR THE PERIOD</b>	<b>59.016.856</b>	<b>42.792.982</b>	<b>178.112.871</b>	<b>116.354.117</b>
<b>Other Comprehensive Income:</b>				
Income or Expenses That Will Not Be Reclassified to Profit or Loss	(14.253)	(1.275.315)	(43.017)	(3.467.582)
<i>Defined benefit plans revaluation fund</i>	<i>(14.253)</i>	<i>(1.578.054)</i>	<i>(43.017)</i>	<i>(4.290.728)</i>
Income or Expenses That Will Not Be Reclassified to Profit or Loss	-	302.739	-	823.146
<i>Deferred tax income</i>	<i>-</i>	<i>302.739</i>	<i>-</i>	<i>823.146</i>
Income or Expenses That Will Be Reclassified to Profit or Loss	55.205.881	34.218.564	166.611.349	93.040.275
<i>Currency translation differences</i>	<i>58.039.491</i>	<i>31.265.641</i>	<i>175.163.185</i>	<i>85.011.277</i>
<i>Hedging reserve gains/(losses)</i>	<i>(3.542.147)</i>	<i>3.691.154</i>	<i>(10.690.199)</i>	<i>10.036.248</i>
<i>Tax (expense) related to other comprehensive income items</i>	<i>708.536</i>	<i>(738.231)</i>	<i>2.138.363</i>	<i>(2.007.250)</i>
<i>Deferred tax income</i>	<i>708.536</i>	<i>(738.231)</i>	<i>2.138.363</i>	<i>(2.007.250)</i>
<b>OTHER COMPREHENSIVE INCOME/ (EXPENSE)</b>	<b>55.191.628</b>	<b>32.943.249</b>	<b>166.568.332</b>	<b>89.572.693</b>
<b>TOTAL COMPREHENSIVE INCOME / (EXPENSE)</b>	<b>114.208.483</b>	<b>75.736.230</b>	<b>344.681.203</b>	<b>205.926.810</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>				
- Non-Controlling Interests	27.625.019	21.575.593	83.372.308	58.664.038
- Owners of the Parent	86.583.464	54.160.637	261.308.895	147.262.772

(\*) Tax expense related to other comprehensive income accounts consists of the deferred taxes of hedging reserves.

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

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016**

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

	Share Capital		Other Comprehensive Income or Expenses That Will Not Be Reclassified to Profit or Loss		Other Comprehensive Income or Expenses That Will Be Reclassified to Profit or Loss			Retained Earnings			Equity Attributable to Owners of the Company	Non-Controlling Interests	Total Equity
			Revaluation and Remeasurement Gain/(Losses)	Currency Translation Differences	Gains/(Losses) on Hedging Reserve	Gains/(Losses) on Financial Assets Fair Value Reserve	Restricted reserves appropriated from profit	Prior Years' Profit and Losses (****)	Net Income for the Period				
										Defined Benefit Plans Remeasurement Fund			
<b>Balances at 1 January 2015</b>	<b>194.529.076</b>	<b>62.052.856</b>	<b>(3.079.114)</b>	<b>113.415.666</b>	<b>1.511.419</b>	<b>(270.151)</b>	<b>30.757.308</b>	<b>410.643.337</b>	<b>77.159.978</b>	<b>886.720.375</b>	<b>200.100.178</b>	<b>1.086.820.553</b>	
Transfers	-	-	-	-	-	-	-	77.159.978	(77.159.978)	-	-	-	
Total comprehensive income	-	-	(3.467.582)	43.450.449	8.028.998	-	-	-	99.250.907	147.262.772	58.664.038	205.926.810	
Dividends paid (*)	-	-	-	-	-	-	-	(67.501.589)	-	(67.501.589)	(9.227.120)	(76.728.709)	
<b>Balances at 31 December 2015</b>	<b>194.529.076</b>	<b>62.052.856</b>	<b>(6.546.696)</b>	<b>156.866.115</b>	<b>9.540.417</b>	<b>(270.151)</b>	<b>30.757.308</b>	<b>420.301.726</b>	<b>99.250.907</b>	<b>966.481.558</b>	<b>249.537.096</b>	<b>1.216.018.654</b>	
<b>Balances at 1 January 2016</b>	<b>194.529.076</b>	<b>62.052.856</b>	<b>(6.546.696)</b>	<b>156.866.115</b>	<b>9.540.417</b>	<b>(270.151)</b>	<b>30.757.308</b>	<b>420.301.726</b>	<b>99.250.907</b>	<b>966.481.558</b>	<b>249.537.096</b>	<b>1.216.018.654</b>	
Transfers	-	-	-	-	-	-	16.006.009	83.244.898	(99.250.907)	-	-	-	
Total comprehensive income	-	-	(43.017)	126.822.947	(8.551.836)	-	-	-	143.080.801	261.308.895	83.372.308	344.681.203	
Dividends paid (**)	-	-	-	-	-	-	-	(60.615.260)	-	(60.615.260)	(15.358.848)	(75.974.108)	
Impact of liquidation of subsidiary (***)	-	-	-	(13.047.850)	-	-	-	-	-	(13.047.850)	-	(13.047.850)	
<b>Balances at 31 December 2016</b>	<b>194.529.076</b>	<b>62.052.856</b>	<b>(6.589.713)</b>	<b>270.641.212</b>	<b>988.581</b>	<b>(270.151)</b>	<b>46.763.317</b>	<b>442.931.364</b>	<b>143.080.801</b>	<b>1.154.127.343</b>	<b>317.550.556</b>	<b>1.471.677.899</b>	

(\*) At the General Assembly meeting 2014 on 24 March 2015, depending on the legal situation of shareholders representing the capital of TL 194.529.076 for 2014, Gross, %34,70 net %33,4769 percent of the total, amounting to 67.501.589 (0,347 TL Gross per share, net 0,334769 TL) dividend payment, it was decided to distribute cash dividends from the date of 29 May 2015.

(\*\*) At the General Assembly meeting 2015 on 23 March 2016, depending on the legal situation of shareholders representing the capital of TL 194.529.076 for 2015, Gross, %31,16 net %26,486 percent of the total, amounting to 60.615.260 (0,3116 TL Gross per share, net 0,26486 TL) dividend payment, it was decided to distribute cash dividends from the date of 4 April 2016

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

(\*\*\*\*) Footnote 2.1

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

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2016**  
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated)

	Notes	Current Year 1 January- 31 December 2016 USD (*)	Prior Year 1 January- 31 December 2015 USD (*)	Current Year 1 January- 31 December 2016	Prior Year 1 January- 31 December 2015
<b>A. CASH PROVIDED BY OPERATING ACTIVITIES</b>		<b>90.011.247</b>	<b>79.297.638</b>	<b>271.653.943</b>	<b>215.610.277</b>
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>					
Profit/(Loss) for the period		59.016.856	42.792.982	178.112.871	116.354.117
Profit/(Loss) for the period from continuing operations		62.115.706	45.782.018	187.465.201	124.481.307
Profit/(Loss) from discontinued operations		(3.098.850)	(2.989.036)	(9.352.330)	(8.127.190)
<b>Adjustments to reconcile profit/(loss) for the period</b>		<b>52.908.632</b>	<b>46.544.486</b>	<b>159.678.251</b>	<b>126.554.457</b>
Adjustments related to depreciation and amortization expenses	11,12	26.278.732	29.704.802	79.309.214	80.767.356
Adjustments related to provision for (reversal) of impairment		3.825.442	1.824.303	11.545.184	4.960.279
Adjustments related to provision for (reversal) of doubtful receivables	21	2.110.045	113.042	6.368.116	307.362
Adjustments related to (reversal) of inventory obsolescence	9	614.212	449.775	1.853.693	1.222.938
Adjustments related to (reversal) of impairment of fixed assets	11,12	1.101.185	1.261.485	3.323.375	3.429.979
Adjustments related to provisions		8.709.615	8.760.285	26.285.618	23.819.214
Adjustments related to (reversal) of employee retirement benefit provision	16	8.723.085	8.745.715	26.326.272	23.779.598
Adjustments related to (reversal) of other provisions		(13.471)	14.570	(40.654)	39.616
Adjustments related to interest (income)/expense		3.658.768	4.692.322	11.042.163	12.758.424
Adjustments related to interest income	22	(1.305.710)	(1.709.738)	(3.940.634)	(4.648.778)
Adjustments related to interest expense	23	5.907.617	8.129.931	17.829.187	22.105.282
Adjustments related to unrealized finance expenses on credit purchases	21	1.410.810	1.333.960	4.257.826	3.627.036
Adjustments related to unearned finance income on credit sales	21	(2.353.948)	(3.061.830)	(7.104.216)	(8.325.116)
Adjustments related to redemption of government grants		-	(919.981)	-	(2.501.429)
Adjustments related to unrealized currency translation differences		509.208	831.220	1.536.789	2.260.087
Adjustments related to fair value changes		(1.671.529)	(937.122)	(5.044.675)	(2.548.034)
Adjustments related to fair value losses / (gains) of investment properties	13	(1.702.698)	(65.149)	(5.138.742)	(177.141)
Adjustments related to fair value losses / (gains) of derivatives		31.169	(871.972)	94.067	(2.370.893)
Adjustments related to (increase)/decrease in current year tax	24	12.070.656	5.944.801	36.429.241	16.163.914
Adjustments related to losses/(gains) disposal of non-current assets		(472.261)	(3.356.143)	(1.425.283)	(9.125.354)
Adjustments related to losses/(gains) disposal of fixed assets	22	(472.261)	(3.356.143)	(1.425.283)	(9.125.354)
<b>Changes in working capital</b>		<b>(21.914.241)</b>	<b>(10.039.830)</b>	<b>(66.137.179)</b>	<b>(27.298.297)</b>
Adjustments related to (increase)/decrease in trade receivables		(28.482.074)	(6.233.167)	(85.958.900)	(16.947.982)
Adjustments related to (increase)/decrease in other trade receivables		(6.730.276)	2.823.005	(20.311.974)	7.675.751
Adjustments related to (increase)/decrease in Derivatives		3.757.168	(3.809.705)	11.339.134	(10.358.587)
Adjustments related to (increase)/decrease in inventories		(38.888.749)	3.685.847	(117.366.244)	10.021.817
Adjustments related to (increase)/decrease in prepaid expenses		(4.865.893)	221.934	(14.685.266)	603.438
Adjustments related to increase/(decrease) in trade payables		39.520.152	8.816.950	119.271.820	23.973.288
Adjustments related to increase/(decrease) in retirement pay and employee benefits paid		3.100.815	756.314	9.358.259	2.056.417
Adjustments related to increase/(decrease) in other trade payables		1.810.337	(1.170.580)	5.463.597	(3.182.806)
Adjustments related to increase/(decrease) in deferred income		2.178.148	(1.085.137)	6.573.651	(2.950.488)
Adjustments related to realized other income/(expense) in working capital		1.615.301	94.619	4.874.978	257.269
Decrease/(Increase) in other assets from operating activities		1.933.433	1.177.241	5.835.101	3.200.917
Increase/(Decrease) in other liabilities from operating activities		(318.132)	(1.082.622)	(960.123)	(2.943.648)
Payments related to provisions of employee benefits	16	(6.312.454)	(5.322.332)	(19.050.985)	(14.471.420)
Income tax returns/(payments)	24	(7.911.251)	(7.128.347)	(23.876.156)	(19.381.975)
Net cash flows related to discontinuing operations		19.294.535	(1.689.231)	58.230.907	(4.593.019)
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(44.260.245)</b>	<b>(28.173.662)</b>	<b>(133.577.418)</b>	<b>(76.604.187)</b>
Proceeds from sale of property, plant and equipment		1.422.771	8.866.599	4.293.923	24.108.284
Purchase of property, plant, equipment and intangible assets	11,12	(46.988.726)	(38.750.000)	(141.811.975)	(105.361.249)
Interest received	22	1.305.710	1.709.738	3.940.634	4.648.778
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>(37.951.207)</b>	<b>(37.683.691)</b>	<b>(114.536.742)</b>	<b>(102.461.957)</b>
Proceeds from borrowings		-	(1.979.115)	-	(5.381.215)
Cash used for repayment of borrowings		(6.785.806)	-	(20.479.561)	-
Cash outflows from factoring operations		(84.024)	(10.575)	(253.583)	(28.754)
Dividends paid		(20.084.680)	(24.825.888)	(60.615.563)	(67.501.589)
Interest paid	22	(5.907.617)	(8.129.931)	(17.829.187)	(22.105.282)
Dividends paid to non-controlling interests and other cash outflows		(5.089.082)	(3.393.571)	(15.358.848)	(9.227.120)
Cash flows related to discontinuing operations		-	655.389	-	1.782.003
<b>NET INCREASE/ DECREASE IN CASH AND CASH EQUIVALENT BEFORE THE CURRENCY TRANSLATION DIFFERENCE IMPACT (A+B+C)</b>		<b>7.799.796</b>	<b>13.440.284</b>	<b>23.539.783</b>	<b>36.544.133</b>
<b>D. CURRENCY TRANSLATION DIFFERENCE IMPACT ON CASH AND CASH EQUIVALENTS</b>		<b>(909.486)</b>	<b>(11.930.299)</b>	<b>(2.744.829)</b>	<b>(32.438.484)</b>
<b>NET INCREASE/ DECREASE IN CASH AND CASH EQUIVALENT (A+B+C+D)</b>		<b>6.890.309</b>	<b>1.509.985</b>	<b>20.794.954</b>	<b>4.105.649</b>
<b>E. CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE PERIOD</b>		<b>5.892.475</b>	<b>5.030.468</b>	<b>17.783.491</b>	<b>13.677.842</b>
<b>CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD (A+B+C+D+E)</b>		<b>12.782.785</b>	<b>6.540.453</b>	<b>38.578.445</b>	<b>17.783.491</b>

(\*) US Dollar (“USD”) amounts presented above are translated from Turkish Lira (“TL”) for convenience purposes only, at the official TL average exchange rate announced by the Central Bank of the Republic of Turkey (“CBRT”) at 31 December 2016 and 31 December 2015, and therefore do not form part of these consolidated financial statements (Note 2.1).

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

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**THE AUDITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret Anonim Şirketi (“Kordsa Global” or the “Company”) was established on 9 February 2006 as a subsidiary of Hacı Ömer Sabancı Sabancı Holding A.Ş. (“Sabancı Holding”) and is registered in İstanbul, Turkey. The Company operates under Turkish Commercial Code.

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

Kordsa Global is registered with the Capital Markets Board of Turkey (“CMB”) and its shares have been traded in Borsa İstanbul (“BIST”) since 1991. As of 31 December 2016, 28,89% of the Group’s shares is listed on BIST. As of the same date, the shareholders owning the Group’s shares and the percentage of the shares are as follows:

	<u>Capital Share(%)</u>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
Hacı Ömer Sabancı Holding A.Ş.	71,11	71,11
Other	28,89	28,89
	<b>100,00</b>	<b>100,00</b>

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

Average number of employees within the Group is 3.782 (31 December 2015: 4.073).

The address of the registered office is as follows:

Kordsa Global Endüstriyel İplik ve Kord Bezi Sanayi ve Ticaret A.Ş.  
Sabancı Center Kule 2  
Kat: 17  
34330 4. Levent  
İstanbul

**KORDSA GLOBAL ENDÜSTRİYEL İPLİK VE KORD BEZİ SANAYİ VE TİCARET A.Ş.**  
**THE AUDITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**NOTE 1 – ORGANISATION AND NATURE OF OPERATIONS OF THE GROUP (cont’d)**

**Subsidiaries**

In accordance with the operating country and segment reporting purpose, geographical divisions in which the subsidiaries that are consolidated in the consolidated financial statements as at 31 December 2016 and 2015 are as follows:

**31 December 2016**

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

**31 December 2015**

<b>Subsidiaries</b>	<b>Country</b>	<b>Geographical division</b>	<b>Area of activity</b>
InterKordsa GmbH (**)	Germany	Europe, Middle East and Africa	Single cord manufacture, industrial yarn and cord fabric trade
Nile Kordsa Company SAE (**)	Egypt	Europe, Middle East and Africa	Cord fabric manufacture and trade
Kordsa Inc.	United States of America	North America	Industrial yarn and cord fabric manufacture and trade
Kordsa Brazil S.A.	Brazil	South America	Industrial yarn and cord fabric manufacture and trade
PT Indo Kordsa Tbk (*)	Indonesia	Asia	Industrial yarn and cord fabric manufacture and trade
PT Indo Kordsa Polyester (*)	Indonesia	Asia	Industrial yarn manufacture and trade
Thai Indo Kordsa Co., Ltd.	Thailand	Asia	Cord fabric manufacture and trade

(\*)Company has traded in Indonesian Stock Exchange (IDX)

(\*\*)According to The Group’s Board of Management decision numbered 2015/29 dated December 31 2015, shares belonging to company partners, Nile Kordsa Company for Industrial Fabrics S.A.E. and Interkordsa GmbH with %51 and %100 of rates respectively, would be classified as “Assets Held for sale” in the balance sheet as of December 31 2015. As of November 16, 2016, sales of Interkordsa GmbH amounted to Euro 3.750.000 realized, as reported in the Public Disclosure Platform.

**Approval of the Financial Statements**

These consolidated financial statements have been approved to be issued during the meeting of the Board of Directors held on 20 February 2017, and have been signed by the CEO Cenk Alper and CFO & COO South America Fatma Arzu Ergene on behalf of the Board of Directors. The shareholders of the Group have the right to make changes in the consolidated financial statements after the aforementioned financial statements are issued, and they are subject to approval of the shareholders at the general assembly meeting of the Group.



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

**2.1 Basis of Presentation**

Statement of Compliance with TAS

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

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

Moreover, financial tables and notes are presented in accordance with the format declared by CMB on 7 June 2013.

The financial statements have been prepared on the historical cost basis except for derivative financial instruments and investment properties. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Functional and Presentation Currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in TL, which is the functional currency of the Group, and the presentation currency for the consolidated financial statements.

Preparation of Financial Statements in Hyperinflationary Periods

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

Comparative Information and Correction of the Financial Tables from Previous Periods

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

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont’d)**

**2.1 Basis of Presentation (cont’d)**

- In accordance with the decision of the Extraordinary General Assembly dated 29 November 2006, purchase of shares of the subsidiary Kordsa Global and Sabancı B.V. And the differences between purchase amount of the acquired other company's and their net assets are accounted under equity. In this context, realized transactions presented under consolidated statement of changes in equity as shareholder's equity contribution, as of 31 December 2016 in accordance with TAS 8 and legal requirements, transactions are reclassified to prior years' profit (losses) in statement of changes in equity table retrospectively in the financial statements.

Basis of Consolidation

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

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

(\*) According to The Group’s Board of Management decision numbered 2015/29 dated December 31 2015, shares belonging to company partners, Nile Kordsa Company for Industrial Fabrics S.A.E. with %51 would be classified as “Assets Held for sale” in the balance sheet as of December 31 2015.

The table below sets out all Subsidiaries and shows their shareholding rates at 31 December 2015:

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

(\*\*)According to The Group’s Board of Management decision numbered 2015/29 dated December 31 2015, shares belonging to company partners, Nile Kordsa Company for Industrial Fabrics S.A.E. and Interkordsa GmbH with %51 and %100 of rates respectively, would be classified as “Assets Held for sale” in the balance sheet as of December 31 2015. As of November 16, 2016, sales of Interkordsa GmbH amounted to Euro 3.750.000 realized, as reported in the Public Disclosure Platform.

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)**

**2.1 Basis of Presentation (cont'd)**

Basis of Consolidation (cont'd)

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

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

(\*\*) According to the Board of Directors Decision No. 2015/29 dated December 31, 2015, it was decided to classify Interkordsa GmbH as a 100% partner at 31 December 2015 as "Asset Held for Sale" in the balance sheet. On November 15, 2016, Interkordsa was sold with a sale price of Euro 3,750,000 and it was excluded from the Group's financial statements.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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

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

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

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)**

**2.1 Basis of Presentation (cont'd)**

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

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

*Changes in the Group's ownership interests in existing subsidiaries*

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable TFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under TAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

US Dollar Translation

USD amounts presented in the consolidated financial statements have been included solely for the convenience of the reader of the consolidated financial statements. Consolidated balance sheet, consolidated statement of profit or loss and consolidated statements of cash flows are translated from TL, as a matter of arithmetic computation only, at the official USD bid rate announced by the CBRT and average USD exchange rate on 31 December 2016 of TL 3,018 = USD 1 (2015: TL 2,7019= USD 1) and on TL 3,018 = USD 1 (2015: 2,7019 = USD 1), respectively and do not form part of these consolidated financial statements. The resulting difference from the use of average CBRT rate for the translation of consolidated statement of profit or loss and the use of bid rate at the balance sheet date for the translation of the consolidated balance sheet is included in translation reserves under shareholders' equity in accordance with the translation requirements of TAS 21 "The Effects of Changes in Foreign Exchange Rates" when the financial statements are presented in a currency other than the functional currency.

**2.2 Changes in Accounting Policies**

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

**2.3 Changes in Accounting Estimates and Errors**

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

Identified accounting errors are corrected in financial statements retrospectively. There are no significant accounting errors identified by the Group in the current period.

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont’d)**

**2.4 New and Revised Turkish Accounting Standards**

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

None.

b) As of 2016, New and revised TAS applied with no material effect on the consolidated financial statements

Amendments to TAS 16 and TAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> <sup>1</sup>
Amendments to TAS 16 and TAS 41 and amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40	<i>Agriculture: Bearer Plants</i> <sup>1</sup>
Amendments to TFRS 11 and TFRS 1 Annual Improvements to 2011-2013 Cycle	<i>Accounting for Acquisition of Interests in Joint operations</i> <sup>1</sup> <i>TFRS 1</i> <sup>2</sup>
Amendments to TAS 1 Annual Improvements to 2012-2014 Cycle	<i>Disclosure Initiative</i> <sup>2</sup> <i>TFRS 5, TFRS 7, TAS 34, TAS 19</i> <sup>2</sup>
Amendments to TAS 27	<i>Equity Method in Separate Financial Statements</i> <sup>2</sup>
Amendments to TFRS 10 and TAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>2</sup>
Amendments to TFRS 10, TFRS 12 and TAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> <sup>2</sup>
TFRS 14	<i>Regulatory Deferral Accounts</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 31 December 2015.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2016.

**Amendments to TAS 16 and TAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation***

This amendment clarifies that that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment, and introduces a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendment also adds guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont’d)**

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

b) As of 2016, New and revised TAS applied with no material effect on the financial statements (cont’d)

**Amendments to TAS 16 and TAS 41 and Amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40**  
***Agriculture: Bearer Plants***

This amendment include ‘bearer plants’ within the scope of TAS 16 rather than TAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with TAS 16. The amendment also introduces a definition of ‘bearer plants’ as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales, and clarifies that produce growing on bearer plants remains within the scope of TAS 41.

Amendments to TAS 16 and TAS 41 also led to amendments in related provisions of TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40, respectively.

**Amendments to TFRS 11 and TFRS 1 *Accounting for Acquisition of Interests in Joint operations***

This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to:

- apply all of the business combinations accounting principles in TFRS 3 and other TAS, except for those principles that conflict with the guidance in TFRS 11,
- disclose the information required by TFRS 3 and other TAS for business combinations.

Amendments to TFRS 11 also led to amendments in related provisions of TFRS 1.

**Annual Improvements 2011-2013 Cycle**

**TFRS 1:** Clarify which versions of TAS can be used on initial adoption (amends basis for conclusions only).

**Amendments to TAS 1 *Disclosure Initiative***

This amendment addresses perceived impediments to preparers exercising their judgment in presenting their financial reports.

**Annual Improvements 2012-2014 Cycle**

**TFRS 5:** Adds specific guidance in TFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont’d)**

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

b) As of 2016, New and revised TAS applied with no material effect on the financial statements (cont’d)

**TFRS 7:** Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

**TAS 34:** Clarify the meaning of ‘elsewhere in the interim report’ and require a cross-reference.

Annual Improvements to 2012-2014 Cycle also led to amendments in related provisions of TAS 19.

**Amendments to TAS 27 *Equity Method in Separate Financial Statements***

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

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

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

**Amendments to TFRS 10, TFRS 12 and TAS 28 *Investment Entities: Applying the Consolidation Exception***

This amendment addresses issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent’s investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by TFRS 12.

**TFRS 14 *Regulatory Deferral Accounts***

TFRS 14 *Regulatory Deferral Accounts* permits an entity which is a first-time adopter of Turkish Financial Reporting Standards to continue to account, with some limited changes, for ‘regulatory deferral account balances’ in accordance with its previous GAAP, both on initial adoption of TFRS and in subsequent financial statements. TFRS 14 also led to amendments in related provisions of TFRS 1.

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont’d)**

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

c) New and revised TAS in issue but not yet effective

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

TFRS 9	<i>Financial Instruments</i> <sup>1</sup>
TFRS 15	<i>Revenue from Contracts with Customers</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

**TFRS 9 *Financial Instruments***

TFRS 9, issued by Public Oversight Authority (“POA”) in 2010, introduces new requirements for the classification and measurement of financial assets. TFRS 9 is amended in 2011 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Revised version of IFRS 9 is issued by POA in January 2017 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income (“FVTOCI”) measurement category for certain simple debt instruments.

TFRS 9 is effective for the annual periods beginning on or after 1 January 2018. Early adoption is permitted unless before 1 February 2015.

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

TFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contracts,
- Recognise revenue when the entity satisfies a performance obligation.

The Company evaluates the effects of these standards, amendments and improvements on the financial statements.



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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont’d)**

**2.5 Significant Accounting Policies**

**a) Revenue**

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

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

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

**b) Inventories**

Inventories are valued at the lower of cost or net realisable value. Cost elements included in inventories are materials, labour and an appropriate amount of factory overheads. The unit cost of inventories is determined on the moving weighted average basis (Note 9). Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale. When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in statement of income/(loss) in the period the write-down or loss occurred. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the original write-down.

**c) Property, plant and equipment**

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

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont’d)**

**2.5 Significant Accounting Policies (cont’d)**

**c) Property, plant and equipment(cont’d)**

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

Gains or losses on disposals of property, plant and equipment are determined by comparing proceeds with their carrying amounts and are included in the related income and expense accounts, as appropriate.

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

**d) Intangible assets**

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

*Internally generated intangible assets – research and development expenses*

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

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

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

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)**

**2.5 Significant Accounting Policies (cont'd)**

**d) Intangible assets (cont'd)**

The amount initially recognized for internally-generated intangible assets is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Derecognition of intangible assets

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

**e) Impairment of assets**

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

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

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

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)**

**2.5 Significant Accounting Policies (cont'd)**

**e) Impairment of assets (cont'd)**

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

**f) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are classified on income statement in the period. Since the Group has no borrowing costs related to qualifying assets, all borrowing costs are classified on income statement in the period.

**g) Business combinations**

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

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

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with TAS 12 Income Taxes and TAS 19 Employee Benefits respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with TFRS 2 Share-based Payment at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with TFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)**

**2.5 Significant Accounting Policies (cont'd)**

**g) Business combinations (cont'd)**

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

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

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

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

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

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)**

**2.5 Significant Accounting Policies (cont'd)**

**g) Business combinations (cont'd)**

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

**h) Goodwill**

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

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

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

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**i) Cash and cash equivalents**

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

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

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

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

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont’d)**

**2.5 Significant Accounting Policies (cont’d)**

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

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

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

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

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

**l) Financial leases**

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Principal payments are disclosed as liabilities and decreased according to payments made (Note 6). The interest element of the finance cost is charged to the income statement over the lease period. Obligations under finance leases are stated in the consolidated financial statements at the acquisition values of the related property, plant and equipment and depreciated over the useful life.

**m) Provision for employment termination benefits**

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per Turkish Accounting Standard No. 19 (revised) “Employee Benefits” (“TAS 19”).

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

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

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

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont’d)**

**2.5 Significant Accounting Policies (cont’d)**

**n) Provision for post-employment benefits(cont’d)**

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

**o) Government grants**

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

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

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

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

**ö) Available-for-sale financial instruments**

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

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



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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont’d)**

**2.5 Significant Accounting Policies (cont’d)**

**ö) Available-for-sale financial instruments(cont’d)**

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

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

*Impairment of financial assets*

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

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

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

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

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont’d)**

**2.5 Significant Accounting Policies (cont’d)**

**p) Equity items**

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

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

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

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

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

**r) Taxes on income**

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

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax base of assets and liabilities and their carrying values for financial reporting purposes. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets or liability are reflected to the consolidated financial statements to the extent that they will decrease or increase the tax payable amount when the temporary differences will disappear. Deferred income tax liabilities are recognised for all taxable temporary differences, whereas deferred income tax assets resulting from deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)**

**2.5 Significant Accounting Policies (cont'd)**

**r) Taxes on income (cont'd)**

Deferred income tax assets and deferred income tax liabilities related to income taxes levied by the same taxation authority and are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities (Note 24).

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

Foreign Currency Transactions and Balances

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in TL, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

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

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

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

Financial Statements of Foreign Subsidiaries, Joint Ventures and Affiliates

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in TL using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified in other comprehensive income and transferred to the Group's translation reserve.

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont’d)**

**2.5 Significant Accounting Policies (cont’d)**

**ş) Borrowings and borrowing costs**

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

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

**t) Derivative financial instruments**

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

Forward transactions:

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

The Group does not use hedging for speculative reasons.

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

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

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

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

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont’d)**

**2.5 Significant Accounting Policies (cont’d)**

**u) Deferred financing costs**

Deferred financing costs (primarily comprising legal and other costs incurred in relation to obtaining long-term bank borrowings from financial institutions) are amortised, using the effective interest method, over the remaining life of the long-term bank borrowings (Note 10).

**ii) Related parties**

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

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

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

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

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont’d)**

**2.5 Significant Accounting Policies (cont’d)**

**v) Earnings per share**

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

**y) Reporting of cash flows**

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

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

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

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

Cash and cash equivalents include cash on hand, bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash within 3 months (Note 4).

**z) Share premium**

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

**aa) Investment property**

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

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

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont’d)**

**2.5 Significant Accounting Policies (cont’d)**

**aa) Investment property (cont’d)**

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

**ab) Segment reporting**

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

**ac) Offsetting**

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

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

The consolidated financial statements of the Group include comparative financial information to enable the determination of the trends in financial position and performance. The Group prepared the consolidated balance sheet at 31 December 2016 in comparison with its consolidated balance sheet at 31 December 2015. The Group also prepared the consolidated statement of profit or loss, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period 1 January - 31 December 2016 in comparison with the accounting period 1 January - 31 December 2015.

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

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

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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)**

**2.6 Critical Accounting Judgments, Estimates and Assumptions (cont'd)**

**a) Estimated impairment of goodwill**

The Group tests annually whether goodwill has been impaired, in accordance with the accounting policy stated in note 2.5. The recoverable amount of cash-generating unit has been determined based on value-in-use calculations. These value-in-use calculations include the discounted after tax cash flow projections, and these projections are based on USD financial budgets approved by Kordsa Global Management covering a three-year period. Cash flows beyond three years are extrapolated by taking into consideration the shut-down periods recurring once a year. The USD fair value is converted into TL by using the related foreign exchange rate on the date of the balance sheet. Therefore, the values used in the calculations are affected by the fluctuations in the foreign exchange market. The discount rate used in the calculations is 9,40 % and the risk premium is 3,3%. The discount rates used are after tax and reflect specific risks relating to the company. As of 31 December 2016, the Group did not determine any impairment in the amount of the goodwill as a result of the impairment test performed by using the aforementioned assumptions.

**b) Net realisable value**

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

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

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

**d) Provision for doubtful receivables**

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

**e) Provisions**

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



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**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (cont'd)**

**2.6 Critical Accounting Judgments, Estimates and Assumptions (cont'd)**

**f) Deferred tax**

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

**g) Internally-generated intangible assets**

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated. The technical feasibility of completing the intangible asset so that it will be available for use or sale, the intention to complete the intangible asset and use or sell it, the ability to use or sell the intangible asset, how the intangible asset will generate probable future economic benefits, the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset and the ability to measure reliably the expenditure attributable to the intangible asset during its development. The amount initially recognized for internally-generated intangible assets is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

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

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**NOTE 3 - SEGMENT REPORTING**

The reportable geographical segments for segment reporting are as follows:

**a) External revenues**

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
Europe, Middle East and Africa	687.485.682	668.943.887
North America	351.397.094	301.801.247
South America	286.914.514	250.781.534
Asia	582.547.841	513.231.169
	<b>1.908.345.131</b>	<b>1.734.757.837</b>

**b) Segment assets**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Europe, Middle East and Africa	859.123.394	703.559.429
Asia	980.499.447	786.602.283
South America	286.690.211	221.700.694
North America	413.615.606	327.692.304
<b>Segment assets (*)</b>	<b>2.539.928.658</b>	<b>2.039.554.710</b>
Unallocated assets	16.935.139	137.140.733
Less: Intersegment eliminations	(13.189.680)	(2.663.627)
<b>Total assets per consolidated financial statements</b>	<b>2.543.674.117</b>	<b>2.174.031.816</b>

**c) Segment liabilities**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Europe, Middle East and Africa	531.839.398	449.471.195
North America	81.773.878	65.570.870
South America	208.987.064	203.400.353
Asia	285.303.837	272.009.602
<b>Segment liabilities (**)</b>	<b>1.107.904.177</b>	<b>990.452.020</b>
Unallocated liabilities	108.340.757	84.512.094
Less: Intersegment eliminations	(144.248.716)	(116.950.952)
<b>Total liabilities per consolidated financial statements</b>	<b>1.071.996.218</b>	<b>958.013.162</b>

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

(\*\*) Segment liabilities comprise mainly of operating liabilities and exclude deferred income tax liabilities, other liabilities and financial liabilities.

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**NOTE 3 - SEGMENT REPORTING (cont’d)**

**d) Segment analysis for the period 1 January – 31 December 2016**

	Europe, Middle East and Africa	North America	South America	Asia	Intersegment elimination	Total
External revenues	687.485.682	351.397.094	286.914.514	582.547.841	-	1.908.345.131
Intersegment revenues	53.331.818	54.276.305	-	49.302.575	(156.910.698)	-
Revenues	740.817.500	405.673.399	286.914.514	631.850.416	(156.910.698)	1.908.345.131
Segment operating expenses	(598.279.797)	(390.937.910)	(264.010.095)	(526.598.266)	162.893.927	(1.616.932.141)
Segment operating result	142.537.703	14.735.489	22.904.419	105.252.150	5.983.229	291.412.990
Unallocated expenses (*)						(51.123.376)
<b>Operating Profit</b>						<b>240.289.614</b>

**e) Segment analysis for the period 1 January – 31 December 2015**

	Europe, Middle East and Africa	North America	South America	Asia	Intersegment elimination	Total
External revenues	668.943.887	301.801.247	250.781.534	513.231.169	-	1.734.757.837
Intersegment revenues	40.825.949	34.952.368	472.421	55.109.118	(131.359.856)	-
Revenues	709.769.836	336.753.615	251.253.955	568.340.287	(131.359.856)	1.734.757.837
Segment operating expenses	(557.831.661)	(356.089.004)	(258.812.528)	(494.439.134)	150.359.691	(1.516.812.636)
Segment operating result	151.938.175	(19.335.389)	(7.558.573)	73.901.153	18.999.835	217.945.201
Unallocated expenses (*)						(47.260.871)
<b>Operating Profit</b>						<b>170.684.330</b>

(\*) Income and expenses of Corporate Office, R&D Center and other unallocated consolidation adjustments are included in this line.

**f) Capital expenditure**

	31 December 2016	31 December 2015
Europe, Middle East and Africa	109.220.441	60.136.324
North America	13.468.950	19.995.401
South America	8.909.547	5.469.235
Asia	16.255.861	19.760.289
	<b>147.854.799</b>	<b>105.361.249</b>

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**NOTE 3 - SEGMENT REPORTING (cont'd)**

**g) Depreciation and amortization**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Europe, Middle East and Africa	23.873.205	23.774.081
North America	17.902.365	20.485.784
South America	7.975.026	6.994.570
Asia	29.558.618	29.512.921
	<b>79.309.214</b>	<b>80.767.356</b>

**h) Provision for doubtful receivables**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Europe, Middle East and Africa	6.155.178	-
North America	-	307.362
South America	212.938	-
Asia	-	-
	<b>6.368.116</b>	<b>307.362</b>

**i) Provision for inventory obsolescence**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Europe, Middle East and Africa	89.297	783.059
North America	946.309	-
South America	135.212	363.429
Asia	1.499.882	1.149.027
	<b>2.670.700</b>	<b>2.295.515</b>

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

**a) External revenues**

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
Fabric	1.456.037.140	1.314.870.857
Nylon Yarn	366.828.997	316.753.263
Construction Reinforcement	1.280.671	480.908
Other	84.198.323	102.652.809
	<b>1.908.345.131</b>	<b>1.734.757.837</b>

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**NOTE 3 - SEGMENT REPORTING (cont'd)**

**b) Segment assets**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Fabric	1.143.794.139	956.667.781
Nylon Yarn	640.188.281	569.912.490
Polyester Yarn	324.776.912	268.111.646
Other	43.971.080	38.065.830
<b>Segment assets</b>	<b>2.152.730.412</b>	<b>1.832.757.747</b>
Unallocated assets	537.953.242	310.345.709
Less: Intersegment eliminations	(147.009.537)	30.928.360
<b>Total assets per consolidated financial statements</b>	<b>2.543.674.117</b>	<b>2.174.031.816</b>

**c) Capital expenditure**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Nylon Yarn	10.797.761	18.076.244
Polyester Yarn	6.933.257	6.306.067
Fabric	46.950.800	35.508.017
Other	83.172.981	45.470.921
	<b>147.854.799</b>	<b>105.361.249</b>

**NOTE 4 - CASH AND CASH EQUIVALENTS**

The details of cash and cash equivalents as of 31 December 2016 and 2015 are as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>
Cash	29.034	18.203
Bank - demand deposits	38.546.732	15.883.795
Bank - time deposits	2.679	1.881.493
	<b>38.578.445</b>	<b>17.783.491</b>

Time deposits have less than 3-months maturity. Average annual interest rate for time deposits are 0,1% (2015: 0,1%) for US Dollar and 0,1% (2015: 0,1%) for Euro.

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**NOTE 5 – FINANCIAL INVESTMENTS**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Common stocks	386.091	290.589
	<b>386.091</b>	<b>290.589</b>

Detail of the common stocks are as follows:

	<b>1 January - 31 December 2016</b>		<b>1 January - 31 December 2015</b>	
	<b>Percentage of shareholding %</b>	<b>Amount</b>	<b>Percentage of shareholding %</b>	<b>Amount</b>
Investimentos Lei 8200	<0,01	118.063	<0,01	95.453
Desenbanco	<0,01	83.518	<0,01	67.524
Investivos Fiscais Finor	<0,01	7.643	<0,01	6.179
Other	-	176.867	-	121.433
		<b>386.091</b>		<b>290.589</b>

Movement schedule of financial assets for the years ended 31 December 2016 and 2015 is as follows:

	<b>1 January - 31 December 2016</b>	<b>1 January - 31 December 2015</b>
Balances at 1 January	290.589	285.638
Currency translation differences	95.502	4.951
<b>Balances at 31 December</b>	<b>386.091</b>	<b>290.589</b>

**NOTE 6 – BORROWINGS**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Short-term borrowings	351.842.461	326.242.736
Short-term portion of long term borrowings	22.282.612	33.933.108
<b>Total short-term financial liabilities</b>	<b>374.125.073</b>	<b>360.175.844</b>
Long-term borrowings	160.882.339	194.119.724
<b>Total long-term financial liabilities</b>	<b>160.882.339</b>	<b>194.119.724</b>
<b>Total financial liabilities</b>	<b>535.007.412</b>	<b>554.295.568</b>

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**NOTE 6 – BORROWINGS (cont'd)**

**Bank borrowings**

The details of long and short term loans as of 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	Weighted average effective interest rate %	TL	Weighted average effective interest rate %	TL
<b>Short-term borrowings</b>				
TL borrowings	-	509.035	-	234.067
USD borrowings	3,28	40.977.154	3,78	82.953.560
Euro borrowings	0,87	300.600.124	0,78	214.593.428
Other borrowings(*)	10,25	9.756.148	11,57	28.461.681
		<b>351.842.461</b>		<b>326.242.736</b>
<b>Short-term portion of long-term borrowings</b>				
USD borrowings	5,06	22.282.612	4,94	33.933.108
		<b>22.282.612</b>		<b>33.933.108</b>
<b>Total short-term borrowings</b>		<b>374.125.073</b>		<b>360.175.844</b>
<b>Long-term borrowings</b>				
USD borrowings	5,06	96.612.195	4,94	129.296.683
Euro borrowings	3,10	60.619.766	3,10	64.823.041
Other borrowings(*)	10,50	3.650.378		-
<b>Total long-term borrowings</b>		<b>160.882.339</b>		<b>194.119.724</b>

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

	31 December 2016		31 December 2015	
	Fair Value	Book Value	Fair Value	Book Value
USD borrowings	159.871.961	159.871.961	246.183.351	246.183.351
TL borrowings	509.035	509.035	234.067	234.067
Euro borrowings	361.219.890	361.219.890	279.416.469	279.416.469
Other borrowings	13.406.526	13.406.526	28.461.681	28.461.681
	<b>535.007.412</b>	<b>535.007.412</b>	<b>554.295.568</b>	<b>554.295.568</b>

As of 31 December 2016 and 31 December 2015, The redemption schedules of borrowings are summarized below:

	31 December 2016	31 December 2015
1 to 2 years	83.024.271	63.316.564
2 to 3 years	19.615.337	97.358.094
3 to 4 years	19.615.340	32.535.054
4 to 5 years	35.991.060	847.903
Over 5 years	2.636.331	62.109
	<b>160.882.339</b>	<b>194.119.724</b>

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

	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>Trade receivables</b>		
Trade receivables	353.851.980	278.035.763
Cheques in the portfolio	5.996.891	7.317.941
Due from related parties (Note 26)	20.944.786	13.686.077
	<b>380.793.657</b>	<b>299.039.781</b>
Less: Provision for doubtful receivables	(7.741.753)	(1.363.347)
Less: Unearned credit finance income	(831.595)	(778.794)
	<b>372.220.309</b>	<b>296.897.640</b>

As of 31 December 2016, annual interest rates for discount of TL, USD and Euro trade receivables and payables are 8,49%, 3,0% and 1,20% respectively (2015: 10,78%, 1,99% and 1,20%). The average maturities of the trade receivables and payables as of 31 December 2016 and 2015 are up to 3 months and average duration of trade debt is 45 days.

As of 31 December 2016, trade receivables amounting to TL 32.360.455 (2015: TL 39.525.595) were past due but not impaired. The aging of these receivables as of 31 December 2016 and 2015 are as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>
Up to 1 month	26.558.888	20.263.464
1 to 3 months	3.935.496	12.026.295
3 to 12 months	1.866.071	7.235.836
	<b>32.360.455</b>	<b>39.525.595</b>

As of 31 December 2016, trade receivables amounting to TL 7,741,753 (2015: TL 1,363,347) have passed and the provision for doubtful receivables has been set aside. As of December 31, 2016 and December 31, 2015, the aging schedule of the related receivables is as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>
Up to 1 months	214.671	251.217
1 to 3 months	-	-
3 to 12 months	599.596	587.283
1 to 5 years	6.927.486	524.847
	<b>7.741.753</b>	<b>1.363.347</b>



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**NOTE 7 - TRADE RECEIVABLES AND TRADE PAYABLES (cont’d)**

Movement schedules of provision for doubtful receivables as of 31 December 2016 and 2015 are as follows:

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
Balances at 1 January	1.363.347	1.420.583
Additions (Note 21)	6.368.116	307.362
Collections	(63.597)	(509.775)
Currency translation differences	73.887	145.177
<b>Balances at 31 December</b>	<b>7.741.753</b>	<b>1.363.347</b>

	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>Trade payables</b>		
Trade payables	277.871.096	168.031.933
Due to related parties (Note 26)	6.473.265	4.084.181
	<b>284.344.361</b>	<b>172.116.114</b>
Less: Unrealised credit finance expense on purchases	(109.230)	(48.587)
	<b>284.235.131</b>	<b>172.067.527</b>

**NOTE 8 - OTHER RECEIVABLES AND PAYABLES**

<b>Other short-term receivables</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Taxes and other dues (*)	7.255.050	12.453.232
Other	4.135.386	2.149.495
	<b>11.390.436</b>	<b>14.602.727</b>

<b>Other long-term receivables</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Taxes and other dues (**)	17.635.021	11.259.218
Other	2.743.702	1.938.496
	<b>20.378.723</b>	<b>13.197.714</b>

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

(\*\*) Taxes and duties payables mainly comprise of long term social security contributions and other tax payables of Kordsa Brazil.

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**NOTE 8 - OTHER RECEIVABLES AND PAYABLES (cont'd)**

<b>Other short-term payables</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Taxes and duties payable	11.514.964	9.972.774
Other	1.919.735	2.725.008
	<b>13.434.699</b>	<b>12.697.782</b>

<b>Other long-term payables</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Taxes and duties payable (***)	14.150.921	8.687.324
	<b>14.150.921</b>	<b>8.687.324</b>

(\*\*\*) The accruals that Kordsa Brazil has allocated for ongoing worker and tax cases

**NOTE 9 – INVENTORIES**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Finished goods	270.269.888	199.251.029
Raw materials and supplies	132.633.052	127.632.135
Semi-finished goods	75.153.889	50.743.474
Spare parts	29.630.796	21.966.897
Intermediate goods	11.318.029	13.078.568
Other inventories	34.800.599	23.767.907
	<b>553.806.253</b>	<b>436.440.010</b>
Less: Provision for obsolescence	(16.422.586)	(11.715.477)
	<b>537.383.667</b>	<b>424.724.533</b>

The allocation of the provisions for obsolescence for the years ended 31 December 2016 and 2015 are as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>
Finished goods	8.514.774	6.893.234
Spare parts	7.568.911	4.537.783
Semi-finished and intermediate goods	198.119	170.767
Raw materials and supplies	140.782	113.693
<b>Balance at 31 December</b>	<b>16.422.586</b>	<b>11.715.477</b>

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**NOTE 9 – INVENTORIES (cont’d)**

Movement schedules for provision for obsolescence for the years ended 31 December 2016 and 2015 are as follows:

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
Balances at 1 January	11.715.477	9.002.927
Additions	2.670.700	2.295.515
Reversals	(817.008)	(1.072.577)
Currency translation differences	2.853.417	1.489.612
<b>Balance at 31 December</b>	<b>16.422.586</b>	<b>11.715.477</b>

The amount of provision for inventory obsolescence classified to cost of goods sold for the year 2016 is TL 1.853.692 (2015: TL 1.222.938).

The cost of inventories recognised as expense and included in cost of sales amounted to TL 805.796.532 for the period 1 January - 31 December 2016 (2015: TL 774.631.361).

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

**Short-term prepaid expenses**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Advances given	2.417.070	2.943.187
Prepaid expenses	3.683.698	2.194.405
Deposits and pledges given	13.211.184	10.376.564
	<b>19.311.952</b>	<b>15.514.156</b>

**Long-term prepaid expenses**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Prepaid Rent Expense(*)	70.849.289	-
Advances given	1.773.891	5.010.415
Deferred finance expense	3.844.341	4.234.692
	<b>76.467.521</b>	<b>9.245.107</b>

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

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**NOTE 10 – PREPAID EXPENSES AND DEFERRED INCOME(cont’d)**

**Deferred income**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Deferred income (*)	6.948.837	375.186
	<b>6.948.837</b>	<b>375.186</b>

(\*) Consist of received order advances.

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

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

	<b>1 January 2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>Provision for impairment</b>	<b>Transfers (*)</b>	<b>Currency translation differences</b>	<b>31 December 2016</b>
<b>Cost:</b>							
Land and land improvements	67.742.656	-	(232.898)	-	-	6.099.431	73.609.189
Buildings	312.608.157	157.070	-	-	1.010.429	39.144.477	352.920.133
Machinery and equipment	1.688.749.258	18.443.144	(11.388.853)	(3.323.375)	36.658.945	260.315.149	1.989.454.268
Motor vehicles	3.554.077	-	(832.007)	-	-	646.176	3.368.246
Furniture and fixtures	53.754.289	231.241	(578.910)	-	3.069.996	11.228.349	67.704.965
Construction in progress	81.741.753	128.345.561	-	-	(106.238.238)	6.730.763	110.579.839
	<b>2.208.150.190</b>	<b>147.177.016</b>	<b>(13.032.668)</b>	<b>(3.323.375)</b>	<b>(65.498.868)</b>	<b>324.164.345</b>	<b>2.597.636.640</b>
<b>Accumulated depreciation:</b>							
Land improvements	27.713.224	668.180	-	-	-	2.889.416	31.270.820
Buildings	174.611.578	6.591.912	-	-	-	18.207.237	199.410.727
Machinery and equipment	918.092.164	61.640.543	(8.785.434)	-	-	126.727.429	1.097.674.702
Motor vehicles	2.717.971	361.647	(810.183)	-	-	595.812	2.865.247
Furniture and fixtures	39.912.950	3.511.690	(563.172)	-	-	7.721.250	50.582.718
	<b>1.163.047.887</b>	<b>72.773.972</b>	<b>(10.158.789)</b>	<b>-</b>	<b>-</b>	<b>156.141.144</b>	<b>1.381.804.214</b>
<b>Net book value</b>	<b>1.045.102.304</b>						<b>1.215.832.426</b>

(\*) As of December 31, 2016 TL 62.254.579 spent on construction of the Composite Technologies Center of Excellence has been classified as prepaid rent expenses.

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**NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (cont'd)**

The movement of property, plant and equipment for the year ended 31 December 2015 is as follows:

	1 January 2015	Additions	Disposals	Provision for impairment	Investment Property Transfers (*)	Transfers	Currency translation differences	31 December 2015
<b>Cost:</b>								
Land and land improvements	66.766.539	29.220	(293.101)	-	(3.770.665)	119.519	4.891.144	67.742.656
Buildings	299.268.144	324.099	-	-	(20.265.684)	7.435.915	25.845.683	312.608.157
Machinery and equipment	1.599.176.509	10.479.881	(26.654.788)	(25.909.699)	(85.766.210)	71.097.431	146.326.134	1.688.749.258
Motor vehicles	3.597.938	41.881	(468.750)	-	(476.002)	371.518	487.492	3.554.077
Furniture and fixtures	50.371.149	253.178	(1.695.488)	-	(1.814.242)	4.279.390	2.360.302	53.754.289
Construction in progress	74.948.739	92.878.465	(176.256)	-	(2.350.990)	(92.054.087)	8.495.882	81.741.753
	<b>2.094.129.018</b>	<b>104.006.724</b>	<b>(29.288.383)</b>	<b>(25.909.699)</b>	<b>(114.443.793)</b>	<b>(8.750.314)</b>	<b>188.406.637</b>	<b>2.208.150.190</b>
<b>Accumulated depreciation:</b>								
Land improvements	24.553.467	984.201	-	-	-	-	2.175.556	27.713.224
Buildings	164.531.820	6.525.616	-	-	(5.153.665)	-	8.707.807	174.611.578
Machinery and equipment	878.738.996	64.884.782	(18.924.579)	(22.479.720)	(35.580.283)	-	51.452.968	918.092.164
Motor vehicles	2.397.050	277.836	(54.039)	-	(279.736)	-	376.860	2.717.971
Furniture and fixtures	38.152.659	2.611.988	(1.405.582)	-	(1.736.079)	-	2.289.964	39.912.950
	<b>1.108.373.992</b>	<b>75.284.423</b>	<b>(20.384.200)</b>	<b>(22.479.720)</b>	<b>(42.749.763)</b>	<b>-</b>	<b>65.003.155</b>	<b>1.163.047.886</b>
<b>Net book value</b>	<b>985.755.026</b>							<b>1.045.102.304</b>

(\*) According to the Group's Board of Directors resolution numbered 2015/29 dated 31 December 2015, as of 31 December 2016; Group's subsidiaries Nile Kordsa Company for Industrial Fabrics S.A.E. And Interkordsa GmbH with rate of 51% and 100% respectively classified as "Assets Held for Sale" in the balance sheet.

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**NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (cont’d)**

Amount TL 69.790.173 (2015: TL 73.307.643) of current period depreciation and amortisation expenses are included in cost of sales, TL 210.093 (2015: 1.516.564 TL) is included in research and development expenses and TL 9.308.948 (2015: TL 5.943.149) is included in general administrative expenses.

There are mortgages on property, plant and equipment amounting to TL 26.438.695 (2015: TL 22.859.993).

**NOTE 12 - INTANGIBLE ASSETS**

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

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**NOTE 12 - INTANGIBLE ASSETS (cont'd)**

	1 January 2015	Additions	Disposals	Transfers	Currency translation differences	31 December 2015
<b>Cost:</b>						
Rights	20.586.943	-		123.689	(601)	20.710.031
Technology licences	17.168.279	-		-	1.031.740	18.200.019
Capitalized development expenses	12.737.753	-		-	-	12.737.753
Computer software	9.442.638	1.329.482	(74.529)	8.626.625	708.168	20.032.384
Customer relationships	659.479	-		-	-	659.479
Other	4.052.648	25.043		-	-	4.077.691
	<b>64.647.740</b>	<b>1.354.525</b>	<b>(74.529)</b>	<b>8.750.314</b>	<b>1.739.307</b>	<b>76.417.357</b>
<b>Accumulated Amortization:</b>						
Rights	5.226.252	1.038.080		-	-	6.264.332
Technology licences	15.052.184	15.007		-	739.742	15.806.933
Capitalized development expenses	4.703.969	1.301.458		-	-	6.005.427
Computer software	11.938.886	2.301.343		-	(120.729)	14.119.500
Other	1.694.715	827.045		-	-	2.521.760
	<b>38.616.006</b>	<b>5.482.933</b>		<b>-</b>	<b>619.013</b>	<b>44.717.952</b>
<b>Net book value</b>	<b>26.031.734</b>					<b>31.699.405</b>

**NOTE 13 – INVESTMENT PROPERTY**

	1 January - 31 December 2016	1 January - 31 December 2015
<b>Balance at the beginning of the year</b>	<b>28.190.849</b>	<b>22.332.047</b>
Gain / (loss) from fair value adjustments (*)	5.138.742	177.141
Currency translation differences	6.794.121	5.681.661
<b>Closing balance</b>	<b>40.123.712</b>	<b>28.190.849</b>

(\*) As of 31 December 2016 and 2015 the fair value of the Group's investment property in PT Indo Kordsa Company in Asia Pasific Region has been determined by independent experts who are not related with the Group and have appropriate qualifications and recent experience in the valuation of properties. The estimated fair values of lands owned have been determined by taking reference of the market transaction prices of similar properties. When determining the fair values of the lands the highest of the value in use has been considered. In the current period no different valuation methodology is performed.

As of 31 December 2016, the fair value hierarchy of the Group's investment property is Level 2 and in the current period there has been no transition between Level 2 and Level 3.



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**NOTE 14 – GOODWILL**

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

In Note 2.6 details of assessment for the impairment of goodwill is defined. There is no change in the book value of the goodwill, which is TL 45.595.167 for the period ended as of 31 December 2016 and 2015.

**NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES**

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

**a) Guarantees given**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Pledges given to banks	225.433.754	205.390.746
Letter of guarantees	21.197.037	25.692.680
Letter of credits	4.374.489	2.010.166
Pledges	892.614	891.831
Pledges given for machinery and equipment	-	8.553.000
Other guarantees given	-	69.642
	<b>251.897.894</b>	<b>242.608.065</b>

**b) Guarantees received**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Letter of guarantees	8.300.295	11.433.234
Cheques and notes received as collateral	752.455	975.613
	<b>9.052.750</b>	<b>12.408.847</b>

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**NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont’d)**

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

<b>31 December 2016</b>	<b>TL Equivalent</b>	<b>TL</b>	<b>USD</b>	<b>EUR</b>	<b>Thai Baht</b>	<b>Other TL Equivalent</b>
A. Total of GPMs given on behalf of own legal personality	251.897.894	13.693.814	65.295.692	2.022.486	9.288.136	-
B. Total of GPMs given on behalf of subsidiaries consolidated in full	5.500.510	-	1.563.000	-	-	-
C. GPM given for continuation of its economic activities on behalf of third parties	-	-	-	-	-	-
D.Total amount of other GPM	-	-	-	-	-	-
i. Total amount of GPM given on behalf of the majority shareholder	-	-	-	-	-	-
ii. Total amount of GPM given to on behalf of other Group companies which are not in scope of B and C	-	-	-	-	-	-
iii. Total amount of GPM given on behalf of third parties which are not in scope of clause C	-	-	-	-	-	-
	<b>257.398.404</b>	<b>13.693.814</b>	<b>66.858.692</b>	<b>2.022.486</b>	<b>9.288.136</b>	<b>-</b>
<b>31 December 2015</b>	<b>TL Equivalent</b>	<b>TL</b>	<b>USD</b>	<b>EUR</b>	<b>Thai Baht</b>	<b>Other TL Equivalent</b>
A. Total of GPMs given on behalf of own legal personality	242.608.065	18.850.279	64.187.715	8.019.731	10.858.014	69.643
B. Total of GPMs given on behalf of subsidiaries consolidated in full	23.777.303	-	7.813.000	-	-	-
C. GPM given for continuation of its economic activities on behalf of third parties	-	-	-	-	-	-
D.Total amount of other GPM	-	-	-	-	-	-
i. Total amount of GPM given on behalf of the majority shareholder	-	-	-	-	-	-
ii. Total amount of GPM given to on behalf of other Group companies which are not in scope of B and C	-	-	-	-	-	-
iii. Total amount of GPM given on behalf of third parties which are not in scope of clause C	-	-	-	-	-	-
	<b>266.385.368</b>	<b>18.850.279</b>	<b>72.000.715</b>	<b>8.019.731</b>	<b>10.858.014</b>	<b>69.643</b>

(\*) Group equity ratio to other CPM given by the group it is 0 % as of December 31,2016 (0 % as of December 31,2015).

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**NOTE 16 – EMPLOYEE BENEFITS**

**Short-term provisions for employee benefits**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Provision for unused vacation	9.361.820	7.011.890
Provision for bonus accrual	11.900.025	7.535.909
Provision for capital contribution plan (*)	1.920.252	362.252
	<b>23.182.097</b>	<b>14.910.051</b>

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

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

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

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
Balances at 1 January	7.011.890	6.308.890
Increase during the year	6.203.566	5.412.869
Decrease during the year	(3.684.003)	(2.935.972)
Currency translation differences	(169.633)	(1.773.897)
<b>Balances at 31 December</b>	<b>9.361.820</b>	<b>7.011.890</b>

**Non-current employee benefits**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Provision for employment termination benefits (*)	35.875.121	31.324.409
Accruals for employee retirement benefit plans	15.854.431	12.094.097
	<b>51.729.552</b>	<b>43.418.506</b>

(\*) Provision for employment termination benefits

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

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

At 31 December 2016 the amount payable consists of one month’s salary limited to a maximum of TL 4.426,16 (2015: TL 4.029,53) for each year of service.

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**NOTE 16– EMPLOYEE BENEFITS (cont’d)**

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

	<b>2016</b>	<b>2015</b>
Discount rate (%)	3,00	3,30
The probability of retirement (%)	98,04	97,96

The principal assumption is that maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of TL 4.426,16 (1 January 2016: TL 4.092,53), which is effective from 1 January 2017, has been taken into consideration in calculating the provision for employment termination benefits of the Group.

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

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
Balances at 1 January	31.324.409	22.912.001
Addition during the year	7.298.055	5.352.031
Payments during the year	(2.790.360)	(1.930.342)
Actuarial loss / (gain)	43.017	4.990.719
<b>Balances at 31 December</b>	<b>35.875.121</b>	<b>31.324.409</b>

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**NOTE 16 – EMPLOYEE BENEFITS (cont’d)**

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

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

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

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

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

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

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
Balances at 1 January	12.094.097	10.691.622
Addition during the year	881.609	488.070
Payments during the year	(29.838)	(1.594.653)
Currency translation differences	2.908.563	2.509.058
<b>Balances at 31 December</b>	<b>15.854.431</b>	<b>12.094.097</b>

<b>Employee benefit obligations</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Wage accruals	1.453.971	1.041.353
Due to personnel	3.786.942	3.113.349
	<b>5.240.913</b>	<b>4.154.702</b>

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**NOTE 17 - OTHER ASSETS AND LIABILITIES**

**Other current assets**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Deductible VAT	19.952.628	36.942.722
Deferred VAT	17.686.694	3.294.429
Prepaid taxes	4.559.329	5.506.966
Advances given to personnel	645.122	352.039
Insurance claim income	50.353	9.699
Other	248.417	80.565
	<b>43.142.543</b>	<b>46.186.420</b>

**Other non-current assets**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Long-term spare parts	33.854.912	26.692.508
Long-term deposits	107.650	263.104
	<b>33.962.562</b>	<b>26.955.612</b>

**Other short-term liabilities**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Sales discounts and commission accruals (*)	5.764.210	5.090.392
Expense accruals	7.183.168	5.942.954
Other tax accruals (**)	4.181.970	2.763.581
Other personnel expenses	643.310	872.280
Other	277.793	3.375.113
	<b>18.050.451</b>	<b>18.044.320</b>

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

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

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**NOTE 18 – EQUITY**

**Paid-in share capital**

The Group’s authorized and issued capital consists of 19.452.907.600 shares at 1 shares of Kr1 nominal value (2015: 19.452.907.600 shares). All shares are paid and there is no preferred stock. The Group’s shareholders and their shareholdings at 31 December 2016 and 2015 are as follows:

	<b>2016</b>	<b>Share (%)</b>	<b>2015</b>	<b>Share (%)</b>
Hacı Ömer Sabancı Holding A.Ş.	138.327.614	71,11	138.327.614	71,11
Other	56.201.462	28,89	56.201.462	28,89
<b>Total paid-in share capital</b>	<b>194.529.076</b>	<b>100,00</b>	<b>194.529.076</b>	<b>100,00</b>

**Revaluation and Hedging Reserves**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Financial assets fair value reserve	(270.151)	(270.151)
Hedging reserve	988.581	9.540.417
	<b>718.430</b>	<b>9.270.266</b>

**Financial Assets Fair Value Reserve:**

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

**Hedging Reserve:**

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

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**NOTE 18 – EQUITY (cont’d)**

**Movements of Hedging Reserve:**

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
<b>Balances at 1 January</b>	<b>9.540.417</b>	<b>1.511.419</b>
Increases/ decreases	1.131.529	27.905.220
Income tax related to gains / losses recognized		
in other comprehensive income	2.138.363	(2.007.250)
Reclassified to profit or loss	(11.821.728)	(17.868.972)
<b>Balances at 31 December</b>	<b>988.581</b>	<b>9.540.417</b>

**Share Premiums**

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

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

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

**Restricted Reserves**

As of 31 December 2016 restricted reserves comprise the legal reserves amounting to TL 46.763.317 (2015: TL 30.207.586).

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



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**NOTE 18 – EQUITY (cont'd)**

**Profit Distribution**

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

The composition of Group's equity, which is considered as the basis for profit distribution is as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>
Net income for the period	143.080.801	99.250.907
Retained earnings	67.036.064	44.406.426
	<b>210.116.865</b>	<b>143.657.333</b>

**NOTE 19 - SALES AND COST OF GOODS SOLD**

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
Sales income (gross)	1.940.155.133	1.763.414.683
Sales returns (-)	(9.072.674)	(6.194.147)
Sales discounts (-)	(17.271.929)	(15.428.537)
Other sales discounts (-)	(5.465.399)	(7.034.162)
<b>Sales Income (Net)</b>	<b>1.908.345.131</b>	<b>1.734.757.837</b>
Cost of sales (-)	(1.511.811.029)	(1.419.689.321)
<b>Gross Profit</b>	<b>396.534.102</b>	<b>315.068.516</b>

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**NOTE 20 - EXPENSES BY NATURE**

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
Raw materials and consumables used	805.796.562	774.631.361
Personnel expenses	292.597.006	253.928.905
Energy expenses	176.506.939	172.190.092
Depreciation and amortization expenses	79.309.214	80.767.356
Distribution expenses	44.061.906	38.653.069
Packaging expenses	40.197.852	36.928.224
Consultancy expenses	14.492.139	17.033.485
Idle mill expenses	11.622.180	12.940.970
Maintenance expenses	2.648.352	2.377.907
Rent expenses	2.375.154	2.325.153
Other	218.196.784	183.934.154
	<b>1.687.804.088</b>	<b>1.575.710.676</b>

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

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
<b>Other operating income</b>		
Foreign exchange gains/ losses on trade receivables	204.571.399	192.050.365
Domestic production incentive income (*)	20.080.168	17.334.703
Unearned finance income on credit sales	7.104.216	8.325.116
Export incentive income	420.331	-
Rent income	188.842	127.580
Income from insurance claims	35.480	4.023
Other	7.122.029	7.622.847
	<b>239.522.465</b>	<b>225.464.634</b>

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

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**NOTE 21 – OTHER OPERATING INCOME AND EXPENSES (cont'd)**

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
<b>Other operating expenses</b>		
Foreign exchange gains/ losses on trade payables (net)	176.259.340	187.474.059
Taxes and duties	9.826.034	10.118.160
Donations	8.530.363	6.924.124
Provision for doubtful receivables (Note 7)	6.368.116	307.362
Unrealized finance expense on credit purchases	4.257.826	3.627.036
Expenses of the customer damages	3.323.375	3.429.979
Property, plant and equipment impairment loss	811.309	989.157
Other	10.397.531	957.588
	<b>219.773.894</b>	<b>213.827.465</b>

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

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
<b>Income from investing activities</b>		
Gain on sale of property, plant and equipment (*)	5.585.681	10.647.206
Gain from fair value of investment properties (Note 13)	5.138.742	177.141
Interest income	3.940.635	4.648.778
	<b>14.665.058</b>	<b>15.473.125</b>

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
<b>Expenses from investing activities</b>		
Loss on sale of property, plant and equipment (**)	4.160.298	1.521.852
	<b>4.160.298</b>	<b>1.521.852</b>

**NOTE 23 – FINANCIAL EXPENSES**

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
<b>Finance expenses</b>		
Interest expenses	17.829.187	22.105.282
Foreign exchange losses	6.577.539	20.975.795
Financial instruments	1.543.993	-
Other	949.212	909.306
	<b>26.899.931</b>	<b>43.990.383</b>

(\*) The profit on sale of fixed assets as of the date of 31 December 2016, in Izmit outside of the area in which the company operates, was obtained from the sale of the land.

(\*\*) As of 31 December 2016, loss on sale of fixed assets represents the loss arising from the sale of idle fixed assets in Kordsa Izmit and Kordsa Brazil.

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**NOTE 24 - TAXATION ON INCOME**

**Corporate Tax**

**Corporate Tax**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Corporate tax payable	27.787.803	19.381.975
Less: Prepaid taxes (*)	(23.876.156)	(21.832.740)
	<b>3.911.647</b>	<b>(2.450.765)</b>

(\*) As of 31 December 2016, the Prepaid Corporate Tax exceeding the Corporate Taxes Payable amounting to TL - (2015: TL2.450.765) has been accounted for under Assets Related to Current Tax account.

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

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

The taxes on income reflected to consolidated income statements for the years ended 31 December 2016 and 2015 are summarized as follows:

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
Current period corporate tax expense	(27.787.803)	(19.381.975)
Deferred tax income / (expense)	(8.641.439)	3.218.062
	<b>(36.429.242)</b>	<b>(16.163.913)</b>

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**NOTE 24 - TAXATION ON INCOME (cont’d)**

**Corporate Tax (cont’d)**

The reconciliation of tax on the consolidated profit or loss tables for the years ended 31 December 2016 and 2015 is as follows:

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
Profit before tax in the consolidated financial statements	223.894.443	140.645.220
Tax charge according to parent company’s tax rate 20%	44.778.889	28.129.044
Tax rate differences of subsidiaries	(5.164.036)	(3.342.225)
<b>Expected tax charge of the Group</b>	<b>39.614.853</b>	<b>24.786.819</b>
Disallowable expenses	1.984.170	1.381.804
Other exempt income	(1.705.767)	(1.387.019)
Exemption of real estate sales	(157.162)	(1.062.734)
Lump-sum expense provision	(558.793)	(574.643)
Research and development incentive allowance	(2.675.755)	(2.466.246)
Consolidation eliminations without deferred tax effect	(72.304)	(4.514.068)
<b>Current period tax expense</b>	<b>36.429.242</b>	<b>16.163.913</b>

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

Tax rate used for deferred tax assets and liabilities calculated on temporary differences that are expected to be realised or settled based on the taxable income under the liability method is 20% in Turkey (2015: 20%).

<b>Country</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Turkey	%20	%20
Egypt	%30	%30
Germany	%30	%30
USA	%35	%35
Brazil	%21,5	%21,5
Indonesia	%25	%25
Thailand	%20	%20

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**NOTE 24 - TAXATION ON INCOME (cont'd)**

**Corporate Tax (cont'd)**

The composition of cumulative temporary differences and the related deferred income tax assets and liabilities in respect of items for which deferred income tax has been provided at 31 December 2016 and 2015 using the enacted tax rates are as follows:

	<b>Cumulative temporary differences</b>		<b>Deferred tax assets/(liabilities)</b>	
	<b>31 December 2016</b>	<b>31 December 2015</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Provision for employment termination benefits	59.489.466	46.954.050	13.078.606	10.186.781
Inventories	15.419.861	15.268.148	4.473.861	4.139.099
Doubtful receivable provision	820.160	749.427	309.529	282.834
Consignment sales adjustment	4.350.419	2.247.637	870.084	449.527
Finance income	466.935	451.861	93.387	90.372
Other	52.631.674	33.280.054	16.397.708	13.898.386
<b>Deferred tax assets</b>			<b>35.223.175</b>	<b>29.046.999</b>
Property, plant and equipment and intangibles	231.375.290	187.222.450	(88.692.405)	(70.317.894)
Other	78.229.501	59.502.106	(15.645.900)	(13.068.214)
<b>Deferred tax liabilities</b>			<b>(104.338.305)</b>	<b>(83.386.108)</b>
<b>Net deferred tax liability</b>			<b>(69.115.130)</b>	<b>(54.339.109)</b>

**Deferred Tax**

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
<b>Balances at 1 January</b>	<b>(54.339.109)</b>	<b>(50.313.015)</b>
Transfers to assets held for sale	-	7.071.490
Current year deferred tax income - net	(8.641.438)	3.218.061
Accounted for under equity	2.138.363	(2.007.250)
Currency translation differences	(8.272.946)	(12.308.395)
<b>Balances at 31 December</b>	<b>(69.115.130)</b>	<b>(54.339.109)</b>

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
Deferred tax assets that are expected to be benefited from after one year	13.078.606	10.186.781
Deferred tax liabilities that are expected to be realized after one year	104.338.305	83.386.108

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**NOTE 25- EARNINGS PER SHARE**

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

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
Net income attributable to equity holders of the parent	143.080.801	99.250.907
Weighted average number of ordinary shares	19.452.907.600	19.452.907.600
Per 1.000 units of common stocks	7,36	5,10
Earning per share from continuing operations		
Net income attributable to equity holders of the parent	152.433.131	107.378.097
Weighted average number of ordinary shares	19.452.907.600	19.452.907.600
Per 1.000 units of common stocks	7,84	5,52
Earning per share from discontinuing operations		
Net income attributable to equity holders of the parent	(9.352.330)	(8.127.190)
Weighted average number of ordinary shares	19.452.907.600	19.452.907.600
Per 1.000 units of common stocks	(0,48)	(0,42)

Nominal values of ordinary shares for the years ended 31 December 2016 and 2015 are assumed to be Kr 1 each.

**NOTE 26 – RELATED PARTY DISCLOSURES**

<b>Bank balances:</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Akbank T.A.Ş. - demand deposits	96.253	51.253
	<b>96.253</b>	<b>51.253</b>

	<b>31 December 2016</b>	<b>31 December 2015</b>
Akbank T.A.Ş. – bank borrowings	60.619.766	80.945.107
	<b>60.619.766</b>	<b>80.945.107</b>

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**NOTE 26 – RELATED PARTY DISCLOSURES (cont'd)**

<b>Due from related parties:</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Brisa Bridgestone Sabancı Lastik Sanayi ve Tic. A.Ş. ("Brisa")	20.291.969	13.621.568
Sabancı Üniversitesi	488.403	-
Aksigorta A.Ş.	77.775	-
Enerjisa Enerji Üretim A.Ş. ("Enerjisa")	61.092	61.410
Bimsa	21.933	-
Akbank A.G.	3.614	3.099
	<b>20.944.786</b>	<b>13.686.077</b>

<b>Due to related parties:</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Enerjisa Enerji Üretim A.Ş. ("Enerjisa")	3.883.122	3.722.716
Enerjisa Doğalgaz Toptan Satış A.Ş. ("Gasco")	1.758.105	-
Bimsa	718.024	310.506
Temsa Global Sanayi ve Ticaret A.Ş. ("Temsa")	47.178	-
Brisa	42.831	44.098
Teknosa İç ve Dış Ticaret A.Ş. ("Teknosa")	15.239	-
Hacı Ömer Sabancı Holding A.Ş. ("Sabancı Holding")	8.282	-
Aksigorta A.Ş.	484	6.861
	<b>6.473.265</b>	<b>4.084.181</b>

<b>Product sales</b>	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
Brisa	58.047.251	58.593.830
	<b>58.047.251</b>	<b>58.593.830</b>

<b>Service sales</b>	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
Sabancı Holding	79.458	-
Enerjisa Enerji Üretim A.S	198	14.497
	<b>79.656</b>	<b>14.497</b>

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



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**NOTE 26 - RELATED PARTY DISCLOSURES (cont'd)**

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
<b>Product purchases</b>		
Enerjisa Enerji Üretim A.Ş. ("Enerjisa")	41.868.673	39.609.785
Enerjisa Doğalgaz Toptan Satış A.Ş. ("Gasco")	15.443.599	-
Bimsa Ulus.Is, Bilgi ve Yon. Sis.i A.S	28.537	500
Brisa Bridgestone Sab. Las.San.ve TicAS	-	39.378
Sabancı Üniversitesi	-	15.936
Teknosa İç ve Dış Ticaret A.S	-	2.010
	<b>57.340.809</b>	<b>39.667.609</b>
<b>Services received</b>		
Bimsa	4.742.526	3.539.708
Aksigorta	3.293.270	3.770.248
AvivaSA Emeklilik ve Hayat A.Ş.	453.786	658.400
Sabancı Üniversitesi	29.389	53.481
Sabancı Holding	20.826	323
TeknoSA	68	1.136
Diğer	514.702	526.095
	<b>9.054.567</b>	<b>8.549.391</b>
<b>Property, plant and equipment purchases</b>		
Bimsa	357.578	530.615
Teknosa	17.723	-
Diğer	3.517	949
	<b>378.818</b>	<b>531.564</b>
<b>Interest income</b>		
Akbank T.A.Ş.	224.098	26.836
<b>Interest expense</b>		
Akbank T.A.Ş.	3.160.104	1.510.033

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**NOTE 26 - RELATED PARTY DISCLOSURES (cont'd)**

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
<b>Foreign exchange gains / (losses) - net</b>		
Akbank T.A.Ş.	1.481.024	3.674.712
<b>Rent expense</b>		
Sabancı Holding	183.606	341.556
<b>Rent income</b>		
Bimsa	65.600	61.160
Other	25.157	-
	<b>90.757</b>	<b>61.160</b>
<b>Donations</b>		
Sabancı University	7.499.280	6.900.000

**Remunerations:**

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

Details of the remunerations provided by the Group for 2016 and 2015 are as follows:

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
Short-term employee benefits	12.084.032	10.229.688
Other long-term benefits	120.634	127.759
Employee termination benefits due to remunerations	354.053	1.033.939
Post-employment benefits	235.838	347.908
	<b>12.794.557</b>	<b>11.739.294</b>

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**NOTE 26 - RELATED PARTY DISCLOSURES (cont'd)**

Security and guarantee letters given:

**31 December 2016**

Related parties	Amount	Currency	Detail	Bank
Kordsa Brazil	1.563.000	US Dollar	Loan Guarantee	IFC

**31 December 2015**

Related parties	Amount	Currency	Detail	Bank
Kordsa Brazil	7.813.000	US Dollar	Loan Guarantee	IFC

**NOTE 27 - INTERESTS IN OTHER ENTITIES**

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

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

Subsidiary	Non-controlling interests %	Net profit/ loss attributable to non-controlling interests	31 December 2015	
			Profit/ (loss) allocated to non-controlling interests	Dividend distributed to non-controlling interests
PT Indo Kordsa Tbk (*)	39,79%	24.806.710	237.354.788	8.631.508
Other		(7.703.500)	12.182.308	
<b>Total</b>		<b>17.103.210</b>	<b>249.537.096</b>	

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

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**NOTE 27 - INTERESTS IN OTHER ENTITIES(cont'd)**

**Summary balance sheet information:**

	<b>PT Indo Kordsa Tbk</b>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
Cash and cash equivalents	34.484.144	13.769.817
Other current assets	304.410.604	233.922.051
Non-current assets	671.070.440	563.196.753
<b>Total assets</b>	<b>1.009.965.188</b>	<b>810.888.621</b>
Short-term borrowings	43.002.199	76.430.170
Other short-term liabilities	131.771.556	54.548.634
Long-term borrowings	100.261.830	124.797.345
Other long-term liabilities	52.641.278	39.198.116
<b>Total liabilities</b>	<b>327.676.863</b>	<b>294.974.265</b>
<b>Total equity</b>	<b>682.288.325</b>	<b>515.914.356</b>
<b>Equity attributable to owners of the parent</b>	<b>619.101.018</b>	<b>462.646.682</b>
<b>Non-controlling interests (**)</b>	<b>63.187.307</b>	<b>53.267.673</b>

**Summary profit or loss statement information:**

	<b>PT Indo Kordsa Tbk</b>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
Sales	631.302.161	568.340.286
Costs of good sold	(470.649.823)	(447.569.196)
Depreciation and amortization	(14.082.615)	(11.337.996)
Operating profit/ (loss)	112.554.578	76.503.193
Net financial income/ (expense)	(10.580.469)	(14.159.112)
Profit/ (loss) before tax	101.974.109	62.344.081
Tax (-)	(30.008.423)	(17.499.388)
Minority shareholder	(34.153.368)	(21.600.091)
Profit for the period	37.812.319	23.244.602

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

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

**Financial risk management**

*Financial risk factors*

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

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

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**NOTE 28 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS(cont’d)**

***Financial risk factors(cont’d)***

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

**(a) *Liquidity risk***

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

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

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

Liquidity risk analysis of the financial liabilities of the Group as of 31 December 2016 and 2015 is as follows:

<b>31 December 2016</b>	<b>Carrying value</b>	<b>Contractual cash flows</b>	<b>Less than 3 months</b>	<b>3 - 12 months</b>	<b>1 - 5 years</b>	<b>Over 5 years</b>
Financial liabilities	535.007.412	596.196.264	96.539.194	321.348.370	178.308.700	-
Trade payables	284.235.131	284.872.021	281.356.144	3.515.877	-	-
Other payables	1.919.735	10.672.596	9.388.488	1.284.108	-	-
	<b>821.162.278</b>	<b>891.740.881</b>	<b>387.283.826</b>	<b>326.148.355</b>	<b>178.308.700</b>	<b>-</b>
<b>31 December 2015</b>	<b>Carrying value</b>	<b>Contractual cash flows</b>	<b>Less than 3 months</b>	<b>3 - 12 months</b>	<b>1 - 5 years</b>	<b>Over 5 years</b>
Financial liabilities	554.295.568	562.256.013	103.969.283	253.962.244	204.324.486	-
Trade payables	172.067.527	172.793.230	168.582.189	4.211.041	-	-
Other payables	2.725.008	3.540.333	2.064.895	1.475.438	-	-
	<b>729.088.103</b>	<b>738.589.576</b>	<b>274.616.367</b>	<b>259.648.723</b>	<b>204.324.486</b>	<b>-</b>

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

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

**(b) *Market risk***

***Interest rate risk***

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

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**NOTE 28 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS(cont'd)**

**(b) Market risk(Cont'd)**

Interest rate risk table of the Group as of 31 December 2016 and 2015 is as follows:

<b>Variable interest financial instruments</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Financial liabilities	161.800.405	487.804.528

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

At 31 December 2016, if interest rates on US Dollar denominated borrowings had been 10% higher/lower with all other variables held constant, profit before tax for the year would have been lower/higher by TL 1.835.652 (2015: TL 657.001), mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31 December 2016, if interest rates on Euro denominated borrowings had been 10% higher/lower with all other variables held constant, profit before tax for the year would have been lower/higher by TL 405 (2015: TL 405), mainly as a result of higher/lower interest expense on floating rate borrowings.

***Foreign exchange risk***

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

***Derivative financial instruments***

The derivative financial instruments of the Group comprise foreign currency and interest rate swap transactions and forward contracts.

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

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

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**NOTE 28 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS(cont'd)**

**Foreign exchange forward contracts:**

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

31 December 2015	Foreign Currency		Contract Value (USD)	Fair Value (TL)
	Average Rate	(TL)		
USD buy Euro sell				
Less than 3 months	1,1431	73.402.560	26.429.630	3.672.363
between 3-6 months	1,1444	57.196.800	20.620.800	2.783.405
between 6-9 months	1,1473	57.196.800	20.673.800	2.745.763
between 9-12 months	1,1509	57.196.800	20.738.100	2.709.779
				<b>11.911.310</b>

Hedges of net investments in foreign operations:

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

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

The Company subjected the net investment in its foreign subsidiaries and the US Dollar and Euro borrowings in other subsidiaries to the hedge of a net investment in foreign operations. The Company accounted for the foreign exchange losses arising from the related borrowings amounting to TL 21.813.684 (31 December 2015: TL 71.315.414) under Currency Translation Reserves in Equity in accordance with TAS 39 and TFRS Interpretation 16.

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**NOTE 28 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS(cont'd)**

Foreign currency position:

Group's assets and liabilities denominated in foreign currencies at 31 December 2016 and 2015 are as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>
Assets	468.729.556	379.096.584
Liabilities	(629.313.191)	(489.992.135)
<b>Net foreign currency position</b>	<b>(160.583.635)</b>	<b>(110.895.551)</b>



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**NOTE 28 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**

<b>31 December 2016</b>	<b>Total</b>				<b>Indonesian</b>	<b>Brazilian</b>	<b>Other TL</b>
	<b>TL equivalent</b>	<b>US Dollars (*)</b>	<b>Euro (*)</b>	<b>Thai Baht (*)</b>	<b>Rupiah (‘000) (*)</b>	<b>Real (*)</b>	<b>Equivalent</b>
<b>Assets:</b>							
Trade receivables	347.803.811	41.893.437	23.518.381	311.991.884	85.158.384	50.300.644	-
Cash and cash equivalent	38.523.509	5.368.980	15.426	146.365.032	4.806.689	3.643.909	2.465
Other monetary receivables and assets	4.135.384	1.066.261	-	148	379.994	262.505	-
Other non-monetary receivables and assets	36.184.497	2.552.199	261.489	21.148.287	68.861.500	5.649.821	18.429
<b>Current assets</b>	<b>426.647.201</b>	<b>50.880.877</b>	<b>23.795.296</b>	<b>479.505.351</b>	<b>159.206.567</b>	<b>59.856.879</b>	<b>20.894</b>
Non-current assets held for sale	113.245	32.179	-	-	-	-	-
Other monetary receivables and assets	40.747.596	5.347.671	22.223	615.000	6.618.352	18.569.724	-
<b>Non-current assets</b>	<b>40.860.841</b>	<b>5.379.850</b>	<b>22.223</b>	<b>615.000</b>	<b>6.618.352</b>	<b>18.569.724</b>	-
<b>Total assets</b>	<b>467.508.042</b>	<b>56.260.727</b>	<b>23.817.519</b>	<b>480.120.351</b>	<b>165.824.919</b>	<b>78.426.603</b>	<b>20.894</b>
<b>Liabilities:</b>							
Trade payables	249.616.695	57.845.554	7.073.442	16.743.348	32.242.959	6.997.703	1.876.685
Financial payables	373.863.859	17.975.619	81.026.476	-	38.194.281	-	-
Other monetary payables and liabilities	40.416.888	4.393.015	9.711	72.696.230	18.756.830	11.854.058	67.978
<b>Total short-term liabilities</b>	<b>663.897.442</b>	<b>80.214.188</b>	<b>88.109.629</b>	<b>89.439.578</b>	<b>89.194.070</b>	<b>18.851.761</b>	<b>1.944.663</b>
Financial payables	160.880.853	27.452.457	17.323.956	-	13.936.826	-	-
Other monetary payables and liabilities	14.150.921	3.449.165	-	37.835.724	-	13.105.042	-
<b>Total long-term liabilities</b>	<b>175.031.774</b>	<b>30.901.622</b>	<b>17.323.956</b>	<b>37.835.724</b>	<b>13.936.826</b>	<b>13.105.042</b>	-
<b>Total liabilities</b>	<b>838.929.216</b>	<b>111.115.810</b>	<b>105.433.585</b>	<b>127.275.302</b>	<b>103.130.896</b>	<b>31.956.803</b>	<b>1.944.663</b>
Fair value of financial instruments used for foreign currency hedging	1.221.514	347.100	-	-	-	-	-
Hedged portion of foreign currency liabilities	208.394.511	181.891	56.000.000	-	-	-	-
<b>Net foreign currency asset / (liability) position</b>	<b>(161.805.149)</b>	<b>(54.326.092)</b>	<b>(25.616.066)</b>	<b>352.845.049</b>	<b>62.694.023</b>	<b>46.469.800</b>	<b>(1.923.769)</b>
<b>Monetary items net foreign currency asset / (liability) position</b>	<b>(407.605.671)</b>	<b>(57.407.282)</b>	<b>(81.877.555)</b>	<b>331.696.762</b>	<b>(6.167.477)</b>	<b>40.819.979</b>	<b>(1.942.198)</b>

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

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**NOTE 28 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**

<b>31 December 2015</b>	<b>Total TL equivalent</b>	<b>US Dollars (*)</b>	<b>Euro (*)</b>	<b>Thai Baht (*)</b>	<b>Indonesian Rupiah (*000) (*)</b>	<b>Brazilian Real (*)</b>	<b>Other TL Equivalent</b>
<b>Assets:</b>							
Trade receivables	272.604.694	32.608.720	27.341.457	297.585.157	74.599.914	60.538.165	-
Cash and cash equivalent	17.757.566	2.078.227	456.191	91.573.079	2.066.910	3.292.625	8
Other monetary receivables and assets	2.149.495	553.787	-	669.579	2.084.636	61.743	-
Other non-monetary receivables and assets	52.217.318	2.700.920	6.909	8.024.051	173.213.694	9.651.989	-
<b>Current assets</b>	<b>344.729.073</b>	<b>37.941.654</b>	<b>27.804.557</b>	<b>397.851.866</b>	<b>251.965.154</b>	<b>73.544.522</b>	<b>8</b>
Marketable securities	93.564	32.179	-	-	-	-	-
Other monetary receivables and assets	22.362.638	2.793.215	-	689.000	3.157.538	18.156.934	-
<b>Non-current assets</b>	<b>22.456.202</b>	<b>2.825.394</b>	<b>-</b>	<b>689.000</b>	<b>3.157.538</b>	<b>18.156.934</b>	<b>-</b>
<b>Total assets</b>	<b>367.185.275</b>	<b>40.767.048</b>	<b>27.804.557</b>	<b>398.540.866</b>	<b>255.122.692</b>	<b>91.701.456</b>	<b>8</b>
<b>Liabilities:</b>							
Trade payables	135.537.647	29.981.887	11.692.885	11.801.080	19.125.151	8.761.814	(327.836)
Financial payables	359.913.023	40.190.514	67.533.178	-	135.039.978	-	(968)
Other monetary payables and liabilities	28.258.509	4.045.433	-	62.687.332	21.341.256	9.329.895	-
<b>Total short-term liabilities</b>	<b>523.709.179</b>	<b>74.217.834</b>	<b>79.226.063</b>	<b>74.488.412</b>	<b>175.506.385</b>	<b>18.091.709</b>	<b>(328.804)</b>
Financial payables	194.119.724	44.468.298	20.400.000	-	-	-	-
Other monetary payables and liabilities	8.687.324	3.278.341	-	31.798.932	-	11.666.757	-
<b>Total long-term liabilities</b>	<b>202.807.048</b>	<b>47.746.639</b>	<b>20.400.000</b>	<b>31.798.932</b>	<b>-</b>	<b>11.666.757</b>	<b>-</b>
<b>Total liabilities</b>	<b>726.516.227</b>	<b>121.964.473</b>	<b>99.626.063</b>	<b>106.287.344</b>	<b>175.506.385</b>	<b>29.758.466</b>	<b>(328.804)</b>
Fair value of financial instruments used for	11.911.309	4.096.612	-	-	-	-	-
Hedged portion of foreign currency liabilities	236.524.092	20.146.682	56.000.000	-	-	-	-
<b>Net foreign currency asset / (liability) position</b>	<b>(110.895.551)</b>	<b>(56.954.131)</b>	<b>(15.821.506)</b>	<b>292.253.522</b>	<b>79.616.307</b>	<b>61.942.990</b>	<b>328.812</b>
<b>Monetary items net foreign currency asset / (liability) position</b>	<b>(411.548.270)</b>	<b>(83.898.345)</b>	<b>(71.828.415)</b>	<b>284.229.471</b>	<b>(93.597.387)</b>	<b>52.291.001</b>	<b>328.812</b>

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

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**NOTE 28 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS(cont'd)**

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

	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>Closing rates</b>		
US Dollars	3,5192	2,9076
Euro	3,7099	3,1776
Indonesian Rupiah (1000 units)	0,2619	0,2108
Brazilian Real	1,0798	0,7446
Thai Baht	0,0982	0,0806
Egyptian Pound	0,1897	0,3713
<b>Average rates</b>		
	<b>1 January - 31 December 2016</b>	<b>1 January - 31 December 2015</b>
US Dollars	3,0213	2,7200
Euro	3,3398	3,0183
Indonesian Rupiah (1000 units)	0,2270	0,2031
Brazilian Real	0,8657	0,8165
Thai Baht	0,0856	0,0794
Egyptian Pound	0,3124	0,3537

Foreign currency position as of 31 December 2016 and 2015 in regard to the 10% changes in foreign currency rates is depicted in the table below:

**31 December 2016**

	<b>Profit/Loss</b>		<b>Equity</b>	
	<b>Appreciation of foreign currency</b>	<b>Depreciation of foreign currency</b>	<b>Appreciation of foreign currency</b>	<b>Depreciation of foreign currency</b>
Change in USD against TL by 10%				
USD net assets/liabilities	(6.684.888)	6.684.888	39.422.359	(39.422.359)
Hedged USD (-)	-	-	-	-
<b>USD net effect</b>	<b>(6.684.888)</b>	<b>6.684.888</b>	<b>39.422.359</b>	<b>(39.422.359)</b>
Change in EURO against TL by 10%				
Euro net assets/liabilities	(7.867.349)	7.867.349	-	-
Hedged Euro (-)	-	-	-	-
<b>Euro net effect</b>	<b>(7.867.349)</b>	<b>7.867.349</b>	<b>-</b>	<b>-</b>
Change in other currency against TL by 10%				
Other currency net assets/liabilities	1.769.679	(1.769.679)	-	-
Hedged other currency (-)	-	-	-	-
<b>Other currency net effect</b>	<b>1.769.679</b>	<b>(1.769.679)</b>	<b>-</b>	<b>-</b>
	<b>(12.782.558)</b>	<b>12.782.558</b>	<b>39.422.359</b>	<b>(39.422.359)</b>

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**NOTE 28 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS(cont'd)**

**31 December 2015**

	Profit/Loss		Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Change in USD against TL by 10%				
USD net assets/liabilities	(1.461.327)	1.461.327	31.769.481	(31.769.481)
Hedged USD (-)	-	-	-	-
<b>USD net effect</b>	<b>(1.461.327)</b>	<b>1.461.327</b>	<b>32.002.231</b>	<b>(32.002.231)</b>
Change in EURO against TL by 10%				
Euro net assets/liabilities	(2.128.396)	2.128.396	3.337.205	(3.337.205)
Hedged Euro (-)	-	-	-	-
<b>Euro net effect</b>	<b>(2.128.396)</b>	<b>2.128.396</b>	<b>3.337.205</b>	<b>(3.337.205)</b>
Change in other currency against TL by 10%				
Other currency net assets/liabilities	1.430.491	(1.430.491)	-	-
Hedged other currency (-)	-	-	-	-
<b>Other currency net effect</b>	<b>1.430.491</b>	<b>(1.430.491)</b>	<b>-</b>	<b>-</b>
	<b>(2.159.232)</b>	<b>2.159.232</b>	<b>35.339.436</b>	<b>(35.339.436)</b>

Export and import transactions from and to Turkey as of 31 December 2016 and 2015 are as follows:

	31 December 2016		31 December 2015	
	Original balance	TL	Original balance	TL
Euro	115.185.040	383.423.148	126.965.875	383.320.454
US Dollars	79.528.013	241.124.588	82.562.290	223.710.000
<b>Total export</b>		<b>624.547.736</b>		<b>607.030.454</b>
			<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
<b>Total Import</b>			<b>431.954.850</b>	<b>418.333.332</b>

**(c) Funding risk**

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

**(d) Credit risk**

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

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

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**NOTE 28 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS(cont’d)**

*(d) Credit risk (cont’d)*

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

Comments on credit quality of financial assets

As of 31 December 2016 and 2015, Banks, where the cash and cash equivalents within the financial assets that are neither past due nor impaired are kept; mainly have high credit and parties in the trade receivables comprise of the customers/ related parties that are worked with for a long time and without significant collection problems.

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**NOTE 28 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**

As of 31 December 2016, the credit risk regarding the financial instruments is as follows:

31 December 2016	Trade receivables		Other receivables (*)		Bank deposits	
	Related party	Other	Related party	Other	Related party	Other
<b>Maximum credit risk based on financial instruments as of reporting date (**)</b>	<b>20.944.786</b>	<b>351.275.523</b>	<b>-</b>	<b>6.879.088</b>	<b>96.253</b>	<b>38.453.158</b>
<i>- Collateralized or secured with guarantees part of maximum credit risk</i>	-	-	-	-	-	-
Net book value of not due or not impaired financial assets	20.912.187	318.915.069	-	6.879.088	96.253	38.453.158
Net book value of past due but not impaired financial assets	-	32.360.454	-	-	-	-
<i>- Collateralized or guaranteed part</i>	-	-	-	-	-	-
Net book value of impaired financial assets	-	-	-	-	-	-
<i>- Gross amount of overdue part</i>	-	7.741.753	-	-	-	-
<i>- Impairment (-)</i>	-	(7.741.753)	-	-	-	-
<i>- Collateralized or guaranteed part of net value</i>	-	-	-	-	-	-

(\*) Excludes taxes and other similar receivables.

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

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**NOTE 28 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**

As of 31 December 2015, the credit risk regarding the financial instruments is as follows:

31 December 2015	Trade receivables		Other receivables (*)		Bank deposits	
	Related party	Other	Related party	Other	Related party	Other
<b>Maximum credit risk based on financial instruments as of reporting date (**)</b>	<b>13.686.077</b>	<b>283.211.563</b>	-	<b>4.087.991</b>	<b>51.253</b>	<b>17.714.035</b>
<i>- Collateralized or secured with guarantees part of maximum credit risk</i>	-	-	-	-	-	-
Net book value of not due or not impaired financial assets	13.686.077	243.685.968	-	4.087.991	51.253	17.714.035
Net book value of past due but not impaired financial assets	-	39.525.595	-	-	-	-
<i>- Collateralized or guaranteed part</i>	-	-	-	-	-	-
Net book value of impaired financial assets	-	-	-	-	-	-
<i>- Gross amount of overdue part</i>	-	1.363.347	-	-	-	-
<i>- Impairment (-)</i>	-	(1.363.347)	-	-	-	-
<i>- Collateralized or guaranteed part of net value</i>	-	-	-	-	-	-

(\*) Excludes taxes and other similar receivables.

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

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**NOTE 28 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS(cont’d)**

**(d) Credit risk (cont’d)**

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

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

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

	<b>31 December 2016</b>	<b>31 December 2015</b>
Less than 1 month	26.558.888	20.263.464
Between 1-3 months	3.935.496	12.026.295
Between 3-12 months	1.866.070	7.235.836
	<b>32.360.454</b>	<b>39.525.595</b>

**(e) Capital risk management**

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

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

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

As of 31 December 2016 and 2015 Net debt/(Equity+net debt+non-controlling interest) ratio is:

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
Total financial liabilities	535.007.412	554.295.568
Cash and cash equivalents	(38.578.445)	(17.783.491)
Net debt	496.428.967	536.512.077
Equity	1.154.127.343	966.481.558
Non-controlling interests	317.550.556	249.537.096
Equity+net debt+non-controlling interest	1.968.106.866	1.752.530.731
Net debt/(Equity+net debt+non-controlling interest) ratio	25%	31%



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**NOTE 29 - FINANCIAL INSTRUMENTS**

*Fair value of financial instruments*

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

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

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

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

<b>31 December 2015</b>	<b>Loans and receivables (cash and cash equivalents included)</b>	<b>Available for sale investments</b>	<b>Financial liabilities at amortized cost</b>	<b>Derivative financial instruments</b>	<b>Carrying value (*)</b>	<b>Note</b>
<b>Financial assets</b>						
Cash and cash equivalents	17.783.491	-	-	-	17.783.491	4
Trade receivables	283.211.563	-	-	-	283.211.563	7
Receivables from related parties	13.686.077	-	-	-	13.686.077	26
Financial investments	-	290.589	-	-	290.589	5
Other financial assets (**)	4.087.991	-	-	-	4.087.991	8
Derivative financial instruments	-	-	-	12.233.648	12.233.648	27
<b>Financial liabilities</b>						
Borrowings	-	-	554.295.568	-	554.295.568	6
Trade payables	-	-	167.983.346	-	167.983.346	7
Payables to related parties	-	-	4.084.181	-	4.084.181	26
Other financial liabilities (**)	-	-	12.697.782	-	12.697.782	8

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

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

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**NOTE 29 - FINANCIAL INSTRUMENTS (cont'd)**

***Monetary assets***

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

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

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

***Monetary liabilities***

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

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

***Fair value estimation***

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

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

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**NOTE 29 - FINANCIAL INSTRUMENTS (cont’d)**

Fair value hierarchy of financial assets and liabilities:

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

Financial Assets / Financial Liabilities	Fair value		Fair value hierarchy	Valuation technique
	31 December 2016	31 December 2015		
Foreign Currency forward contracts	1.221.514	11.911.309	Level 2	Discounted cash flow method: The future cash flows, predicted by forward foreign currency rate (observable forward foreign currency rates at reporting date) and the contracted rates, are discounted by a discount rate which indicates other parties' credit risk.

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

According to The Group’s Board of Management decision numbered 2015/29 dated December 31 2015, shares belonging to company partners, Nile Kordsa Company for Industrial Fabrics S.A.E. and Interkordsa GmbH with %51 and %100 of rates respectively, would be classified as “Assets Held for Sale” in the balance sheet as of December 31 2015. Hence, these companies were classified as “Assets Held for Sale” in preparation for financial tables in December 31, 2015. To ensure that financial tables would be comparable, finances that belong to above-mentioned companies were classified as “Assets Held for Sale” in profit/loss tables dated in December 31, 2014.

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**NOTE 30 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (cont'd)**

Nile Kordsa's operation results between 1 January 2016 –15 November 2016 and 1 January 2015 – 31 December 2015 are presented below:

**NILE KORDSA**

	<b>1 January- 31 December 2016</b>	<b>1 January- 31 December 2015</b>
<b>PROFIT OR LOSS</b>		
Sales	-	36.145.459
Cost of Sales (-)	-	(39.055.751)
<b>GROSS PROFIT</b>	<b>-</b>	<b>(2.910.292)</b>
Marketing Expenses (-)	-	(2.493.380)
General and Administrative Expenses (-)	-	(3.285.561)
Research and Development Expenses (-)	-	-
Other Operating Income	519.081	1.280.355
Other Operating Expenses (-)	(1.750.000)	(1.585.386)
<b>OPERATING INCOME / LOSS</b>	<b>(1.230.919)</b>	<b>(8.994.264)</b>
Income From Investing Activities	-	4.394.527
Expenses From Investing Activities (-)	-	(402.808)
<b>OPERATING INCOME / LOSS BEFORE FINANCIAL EXPENSE</b>	<b>(1.230.919)</b>	<b>(5.002.545)</b>
Financial Income	-	-
Financial Expenses (-)	-	(2.630.838)
<b>INCOME / LOSS BEFORE TAX</b>	<b>(1.230.919)</b>	<b>(7.633.383)</b>
Tax Expense:		
- Current Tax Expense	-	(726.730)
- Deferred Tax Income/ (Expense)	-	44.717
<b>INCOME / LOSS FOR THE PERIOD</b>	<b>(1.230.919)</b>	<b>(8.315.396)</b>

(\*) Refers to provision expenses which are related to sales process of Nile Kordsa.

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**NOTE 30 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (cont'd)**

Interkordsa's operation results between 1 January 2016 –15 November 2016 and 1 January 2015 – 31 December 2015 are presented below:

**INTERKORDSA**

	<b>1 January- 31 October 2016</b>	<b>1 January- 31 December 2015</b>
<b>PROFIT OR LOSS</b>		
Sales	43.648.587	45.055.383
Cost of Sales (-)	(37.446.377)	(40.773.361)
<b>GROSS PROFIT</b>	<b>6.202.210</b>	<b>4.282.022</b>
Marketing Expenses (-)	(2.481.696)	(2.613.813)
General and Administrative Expenses (-)	(1.999.144)	(1.798.883)
Research and Development Expenses (-)	-	-
Other Operating Income	333.096	538.354
Other Operating Expenses (-)	(10.094.172)	(217.315)
<b>OPERATING INCOME / LOSS</b>	<b>(8.039.706)</b>	<b>190.365</b>
Income From Investing Activities	-	-
Expenses From Investing Activities (-)	-	-
<b>OPERATING INCOME / LOSS BEFORE FINANCIAL EXPENSE</b>	<b>(8.039.706)</b>	<b>190.365</b>
Financial Income		
Financial Expenses (-)	(6.565)	(33.201)
<b>INCOME / LOSS BEFORE TAX</b>	<b>(8.046.271)</b>	<b>157.164</b>
Tax Expense:		
- Current Tax Expense	(58.435)	121.331
- Deferred Tax Expense	(16.705)	(90.288)
<b>INCOME / LOSS FOR THE PERIOD</b>	<b>(8.121.411)</b>	<b>188.207</b>

(\*) Refers to provision expenses which are related to sales process of Interkordsa GmbH.

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

Acceptance of Neriman ÜLSEVER’s resignation from her duties as the Vice Chairman of Board of Directors, member of the Corporate Governance Committee and member of the Early Identification of Risk Committee, as of January 2, 2017. It is decided to appoint Barış ORAN as the Vice Chairman of Board of Directors according to Article No. 366 of the Turkish Commercial Code. Based on the Article “4.5 Committees formed within the Management Board” stated on the Appendix-1 of Corporate Governance Communiqué (II-17.1) of Capital Markets Board, Vice Chairman of the Board of Directors Barış ORAN has been elected as a member of Early Identification of Risk Committee, and Board Member Fezal OKUR ESKİL has been elected as a member of Corporate Governance Committee.

Since the head office of the Company will be moved to the address “Alikahya Fatih Mahallesi Sanayici Caddesi No: 90 İzmit/ Kocaeli”, Article No. 5 of "Section 1 General Provisions, Headquarters and Branches" and Article No. 26 of the "Section V. General Assembly Meeting Location" of Group’s Articles of Association were deemed appropriate pursuant by Capital Market Board with respect to Article 33/2 of the Capital Markets Law.