

DOĐTAŐ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ő.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AT 30 JUNE 2017

TOGETHER WITH AUDITOR'S REVIEW REPORT

**CONVENIENCE TRANSLATION INTO ENGLISH OF INDEPENDENT
AUDITOR’S REVIEW REPORT ORIGINALLY ISSUED IN TURKISH**

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

To the Board of Directors of Dođtař Kelebek Mobilya Sanayi ve Ticaret A.ř.

Introduction

1. We have reviewed the accompanying condensed consolidated balance sheet of Dođtař Kelebek Mobilya Sanayi ve Ticaret A.ř. (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as at 30 June 2017 and the related condensed consolidated statements of income, other comprehensive income, changes in equity and cash flows for the six-month period then ended. The management of the Group is responsible for the preparation and fair presentation of this interim condensed consolidated financial information in accordance with Turkish Accounting Standard 34 “Interim Financial Reporting” (“TAS 34”). Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of review

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

Basis for qualified conclusion

3. As explained in Note 8 to the accompanying interim condensed consolidated financial information, the consolidated balance sheet as at 30 June 2017 consists of trade receivables amounting to TL 10,380,482 which were occurred as a result of the Group’s operations and their due dates considerably exceeded 180 days and over. Furthermore, the Group management has recognized foreign exchange gain amounting to TL 301,989 in other operating income for the period 1 January - 30 June 2017, due to the translation of foreign currency denominated trade receivables to TL, which their due dates considerably exceeded 180 days and over. We were unable to perform sufficient review procedures on which to determine whether there is any impairment of such balances. As a result, we were unable to determine whether adjustments were necessary in respect of the recoverability of this amount.

4. As at 30 June 2017, the Group has non-moving inventories amounting to TL 27,293,705 in its consolidated balance sheet, which were returned from sales in 2016. We were unable to perform sufficient review procedures on which to determine whether there is any impairment of such non-moving inventories. As a result, we were unable to determine whether adjustments were necessary in respect of the recoverability of this amount.
5. The Company's subsidiaries, Dođtař Holland B.V., Dođtař Bulgaria Eood and Dođtař Germany GmbH, have been determined as immaterial subsidiaries with respect to the interim condensed consolidated financial information and classified under available-for-sale financial assets in the interim condensed consolidated financial information. Due to the limited operations and unsecured total net assets of available-for-sale financial assets amounting to TL 9,469,958 which were recognized at cost in accordance with Turkish Accounting Standards 39 "Financial Instruments: Recognition and Measurement" in the financial information as at 30 June 2017, we have concluded that provision for impairment should have been recognized for the entire carrying amount of available-for-sale financial assets in the consolidated opening balance sheet as at 1 January 2015. As a result, had the Group accounted provision for impairment in its interim condensed consolidated financial information, the Group's accumulated losses would have been increased by TL 9,469,958.

Qualified conclusion

6. Based on our review, except for the possible effect of the matters in paragraphs 3 and 4 and except for the effect of the matter described in paragraph 5, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with TAS 34.

Emphasis of matter

7. As explained in Note 2.5 to the accompanying interim condensed consolidated financial information, as at 30 June 2017 the Group's current liabilities exceeded its current assets by TL 110,847,481 (31 December 2016: exceeded by TL 83,211,075). Accordingly, the Group's management, performed a detailed assessment and took precautions as disclosed in note 2.5.

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
FOR THE PERIOD 1 JANUARY - 30 JUNE 2017**

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DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

CONSOLIDATED BALANCE SHEET AT 30 JUNE 2017

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

	Notes	30 June 2017	31 December 2016
ASSETS			
Cash and cash equivalents		3,143,109	737,786
Trade receivables		85,925,108	81,114,376
- Trade receivables from related parties	7	3,381,092	3,197,367
- Trade receivables from third parties		82,544,016	77,917,009
Other receivables from third parties		3,599,479	3,524,277
Inventories		158,548,150	142,410,216
Current income tax assets	6	175,250	156,475
Prepaid expenses		30,939,098	19,823,938
Other current assets		38,431	427,901
Current assets		282,368,625	248,194,969
Assets classified as held for sale		491,200	491,200
Total current assets		282,859,825	248,686,169
Other receivables from related parties		434,540	446,975
Available-for-sale financial assets		9,469,958	9,469,958
Investment properties		53,143	55,264
Property, plant and equipment	3	217,065,089	172,078,671
Intangible assets		21,428,532	23,054,803
Prepaid expenses		2,127,213	-
Deferred tax assets	6	433,672	156,642
Other non-current assets		8,071,484	-
Total non-current assets		259,083,631	205,262,313
Total assets		541,943,456	453,948,482

These condensed consolidated interim financial information has been approved for issue by the Board of Directors on 9 August 2017.

The accompanying notes form an integral part of this condensed consolidated interim financial information.

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.**CONSOLIDATED BALANCE SHEET AT 30 JUNE 2017**

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

	Notes	30 June 2017	31 December 2016
LIABILITIES			
Short-term borrowings	4	129,123,507	95,204,131
Short-term portion of long term borrowings	4	45,375,528	42,503,009
Trade payables		113,595,876	127,189,662
- <i>Due to other parties</i>		113,595,876	127,189,662
Payables related to employee benefits		5,817,426	4,803,886
Other payables		20,199,989	1,045,467
- <i>Other payables from other parties</i>		1,110,840	975,118
- <i>Other payables from related parties</i>	7	19,089,149	70,349
Deferred revenue		72,675,643	56,348,113
Short-term provisions		5,588,125	4,751,999
- <i>Provisions for employee benefits</i>		3,825,034	2,566,228
- <i>Other provisions</i>	5	1,763,091	2,185,771
Other current liabilities		98,608	50,977
Total current liabilities		392,474,702	331,897,244
Long-term borrowings	4	74,208,831	91,235,372
Other payables		314,783	906,312
- <i>Other payables from other parties</i>		314,783	906,312
Long-term provisions		3,122,868	2,915,003
- <i>Long-term provisions related to employee benefits</i>		2,082,327	2,082,327
- <i>Other long-term provisions</i>	5	1,040,541	832,676
Deferred revenue		38,960	38,960
Deferred tax liabilities	6	10,811,941	1,043,194
Total non-current liabilities		88,497,383	96,138,841
Share capital		209,069,767	209,069,767
Reverse merger capital differences		(159,069,767)	(159,069,767)
Share premium		282,945	282,945
Treasury share (-)		(10,991)	(10,991)
Other comprehensive income/expense not to be reclassified to profit or loss			
- <i>Increase on revaluation of property and equipment</i>		98,337,055	68,479,964
- <i>Actuarial gain arising from employee benefits</i>		1,867,562	1,867,562
Legal reserves		607,177	607,177
Accumulated deficit		(95,314,260)	(55,666,145)
Net profit/(loss) for the period		5,201,883	(39,648,115)
Total equity		60,971,371	25,912,397
Total liabilities and equity		541,943,456	453,948,482

The accompanying notes form an integral part of this condensed consolidated interim financial information.

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017**

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

	Notes	Reviewed 1 January - 30 June 2017	Not reviewed 1 April - 30 June 2017	Reviewed 1 January - 30 June 2016	Not reviewed 1 April - 30 June 2016
Revenue		250,973,577	146,449,423	184,336,479	100,527,283
Cost of sales (-)		(153,587,809)	(90,605,057)	(115,049,129)	(63,178,154)
Gross profit		97,385,768	55,844,366	69,287,350	37,349,129
General administrative expenses (-)		(11,004,341)	(6,225,798)	(14,767,538)	(7,220,722)
Marketing expenses (-)		(46,941,196)	(29,628,301)	(44,669,234)	(23,313,195)
Research and development expenses (-)		(1,771,617)	(966,947)	(2,032,509)	(1,026,879)
Other operating income		13,251,152	1,985,374	7,070,175	5,060,436
Other operating expenses (-)		(13,251,796)	(1,181,297)	(7,498,862)	(6,266,597)
Operating profit		37,667,970	19,827,397	7,389,382	4,582,172
Income from investing activities		4,479	-	200,892	28,218
Expense from investing activities (-)		-	-	(16,271)	-
Operating profit before financial income/(expenses)		37,672,449	19,827,397	7,574,003	4,610,390
Financial income		24,117,958	2,639,830	8,796,400	6,690,593
Financial expense (-)		(54,561,080)	(14,438,665)	(24,916,684)	(14,300,596)
Profit/(Loss) before tax		7,229,327	8,028,562	(8,546,281)	(2,999,613)
Taxation on income					
Deferred tax (expense)/income	6	(2,027,444)	(1,642,932)	1,583,609	687,822
Profit/(Loss) for the period		5,201,883	6,385,630	(6,962,672)	(2,311,791)
Earnings/(Losses) per share	11	0.0002	0.0002	(0.0003)	(0.0001)
Profit/(Loss) for the period		5,201,883	6,385,630	(6,962,672)	(2,311,791)
<i>Items not to be classified to profit or loss</i>		29,857,091	-	(411,926)	-
Revaluation reserves		37,321,364	-	-	-
Remeasurement differences		-	-	(514,908)	-
Deferred tax effect	6	(7,464,273)	-	102,982	-
Total comprehensive income/(loss)		35,058,974	6,385,630	(7,374,598)	(2,311,791)

The accompanying notes form an integral part of this condensed consolidated interim financial information.

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017

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

	Share capital	Share premium	Treasury shares	Legal reserves	Remeasurement differences	Revaluation reserves	Accumulated losses	Net profit for the period	Total equity
Balance at 1 January 2016	50,000,000	282,945	(5,367,595)	607,177	1,518,839	45,166,056	(28,677,323)	(27,732,446)	35,797,653
Transfers	-	-	-	-	-	(720,056)	(27,012,390)	27,732,446	-
Total comprehensive loss	-	-	-	-	(411,926)	-	-	(6,962,672)	(7,374,598)
Balance at 30 June 2016	50,000,000	282,945	(5,367,595)	607,177	1,106,913	44,446,000	(55,689,713)	(6,962,672)	28,423,055
Balance at 1 January 2017	50,000,000	282,945	(10,991)	607,177	1,867,562	68,479,964	(55,666,145)	(39,648,115)	25,912,397
Transfers	-	-	-	-	-	-	(39,648,115)	39,648,115	-
Other comprehensive income	-	-	-	-	-	29,857,091	-	5,201,883	35,058,974
Balance at 30 June 2017	50,000,000	282,945	(10,991)	607,177	1,867,562	98,337,055	(95,314,260)	5,201,883	60,971,371

The accompanying notes form an integral part of this condensed consolidated interim financial information.

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017**

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

Notes	Reviewed 1 January - 30 June 2017	Reviewed 1 January- 30 June 2016
Net income/(loss) for the period	5,201,883	(6,962,672)
Adjustments to reconcile net income for the period	42,291,670	25,054,591
Adjustments related to amortisation and depreciation	5,748,341	6,894,337
Adjustments related to (cancellation) of provision for employment termination benefits	1,258,806	2,481,403
Adjustments related to (cancellation) of other provisions	(590,150)	-
Adjustments related to (cancellation) of warranty provisions	589,773	752,882
Adjustments to reconcile income/(loss)	-	(115,203)
Unincurred finance income	-	(97,396)
Adjustments related to inventories impairment (cancellation)	7,900,625	-
Adjustments related to tax income/(expense)	2,027,444	(1,583,609)
Adjustments to gain/(loss) on sale of property and equipment	-	(247,655)
Adjustments related to financial expenses	11,653,395	14,738,701
Adjustments related to financial income	(9,420)	-
Adjustments to unrealised foreign translation differences	13,712,856	2,231,131
Changes in net working capital	(15,304,890)	(21,985,758)
Adjustments related to decrease/(increase) in trade receivables	(8,244,943)	(24,069,230)
Adjustments related to decrease/(increase) in other receivables related with operations	(62,767)	82,702
Adjustments related to decrease/(increase) in inventories	(24,038,559)	(18,453,238)
Adjustments related to decrease/(increase) in prepaid expenses	(13,242,373)	8,205,055
Adjustments related to decrease/(increase) in other current assets related with operations	(7,632,262)	(6,441)
Adjustments related to increase/(decrease) in trade payables	(13,593,786)	(3,937,947)
Adjustments related to increase/(decrease) provisions for employment termination benefits	1,013,540	123,701
Adjustments related to decrease/(increase) in other liabilities related with operations	34,168,730	2,742,455
Increase/(decrease) in deferred revenue	16,327,530	13,327,185
Cash outflows from operations	(233,213)	(3,863,948)
Employee termination benefits paid	-	(1,520,442)
Payments for other provisions	(214,438)	(2,343,506)
Taxes paid	(18,775)	-
A. Cash outflows from operating activities	31,955,450	(7,757,787)
Interest received	9,420	11,790
Cash outflows from purchases of tangible and intangible assets	(11,787,124)	(9,791,743)
Proceeds from disposal of property, equipment and intangible assets	-	287,655
B. Cash outflows from investing activities	(11,777,704)	(9,492,298)
Interest paid	(8,219,184)	(11,894,091)
Proceeds from bank borrowings	97,191,173	142,989,576
Cash outflows due to the payments of bank borrowings	(106,744,412)	(118,615,962)
C. Cash outflows from financing activities	(17,772,423)	12,479,523
Net increase/(decrease) in cash and cash equivalents	2,405,323	(4,770,562)
Cash and cash equivalents at the beginning of the period	737,786	7,177,720
Cash and cash equivalents at the end of the period	3,143,109	2,407,158

The accompanying notes form an integral part of this condensed consolidated interim financial information.

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Registered head office:

İdealtepe Mahallesi Rıfki Tongsir Caddesi No: 107 Küçükyalı, Maltepe - İstanbul.

Registered market:

The Company is registered in Capital Market Board ("CMB") and its shares have been traded in Borsa İstanbul A.Ş. ("BİST") since 1990 (formerly known as "Istanbul Stock Exchange") under the name DGKLB. As of 30 June 2017, 7.89% of its shares are open for trading (31 December 2016: 7.89%).

Nature of operations:

The main operating segment is production and sale of furnitures.

The Company's production facilities are located at Doğanlı Köyü 9. km Düzce and İdriskoru Köyü Hacıvenez Mevkii No: 29 Biga Çanakkale and both locations are owned by the Company itself.

Kelebek Mobilya ve Kontrplak Sanayi A.Ş. was founded in İstanbul in 1935. Legal name of the Company which were Kelebek Mobilya ve Kontrplak Sanayi A.Ş. has been changed to Kelebek Mobilya Sanayi ve Ticaret A.Ş. by the decision taken in extraordinary general assembly meeting dated 12 December 2003 and registered to Trade Registry Gazette of Turkey on 29 December 2003.

A chain of retail stores established in 2006 in order to operate in furniture and trade goods sale by 3K Mobilya Dekorasyon San. Ve Tic. A.Ş. ("3K"), which is a subsidiary of the Company. In 2013, the Company has transferred the stores (8 units) to franchisees owned by 3K. 2K Oturma Grupları İnşaat Taahhüt Sanayi ve Ticaret A.Ş. which also is a subsidiary of the Company ceased its operations as of 28 March 2007 and the production facilities were terminated.

Doğtaş Mobilya Pazarlama Ticaret A.Ş. ("Doğtaş Pazarlama") which is a subsidiary of the Company was established in 1996 and operates in selling and marketing of furniture and sofa groups and commercial products. Doğtaş Pazarlama has no branches in Turkey as of 30 June 2017 (31 December 2016: None).

Doğ-taş Doğanlar Mobilya İmalat Enerji Üretim Sanayi ve Ticaret A.Ş. ("Doğtaş İmalat") acquired 67% shares of Kelebek Mobilya Sanayi ve Ticaret A.Ş. on 6 September 2012.

In 2013, the merger transaction has been completed in accordance with Turkish Commercial Code Law No. 6102 clause 136 and other merger related clauses in which were Corporate Tax Law article 18,19,20, Capital Markets Law from the identifiable net assets of Doğ-Taş Doğanlar Mobilya İmalat Enerji Üretim Sanayi A.Ş. as at 31 December 2013. The merger transaction has been registered on 21 October 2013 and the legal name of the Company changed as Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş.

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

These condensed consolidated interim financial information has been approved for issue by the Board of Directors on 9 August 2017.

The shareholding structure of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. as of 30 June 2017 and 31 December 2016 is as follows:

Shareholder	30 June 2017		31 December 2016	
	TL	Proportion of ownership (%)	TL	Proportion of ownership (%)
International Furniture B.V.	96,284,884	46.05	96,284,884	46.05
Davut Doğan	16,047,503	7.68	16,047,503	7.68
Adnan Doğan	16,047,484	7.68	16,047,484	7.68
Şadan Doğan	16,047,474	7.68	16,047,474	7.68
İsmail Doğan	16,047,474	7.68	16,047,474	7.68
İlhan Doğan	16,047,474	7.68	16,047,474	7.68
Murat Doğan	16,047,474	7.68	16,047,474	7.68
Other	16,500,000	7.89	16,500,000	7.89
	209,069,767	100	209,069,767	100

As of 30 June 2017 and 31 December 2016, the paid-in share capital of the Company is TL 209,069,767. However, the portion of the capital amounting to TL 159,069,767 is attributable to Doğan Taş Doğanlar Mobilya İmalat Enerji Üretim Sanayi A.Ş. and Kelebek Mobilya Sanayi ve Ticaret A.Ş. during the merger.

As at 30 June 2017, the number of employees of the Company and its subsidiaries (collectively referred to as the "Group") is 1,451 (31 December 2016: 1,300).

The subsidiaries within the Group and their nature of operations are as follows:

Subsidiaries	Registered country	Nature of operation
Doğtaş Mobilya Pazarlama Ticaret A.Ş. ("Doğtaş Pazarlama")	Turkey	Sales and marketing of furniture
Doğtaş Bulgaria Eood ("Doğtaş Bulgaria")	Bulgaria	Sales and marketing of furniture
Doğtaş Holland B.V. ("Doğtaş Holland")	Nederland	Sales and marketing of furniture
Doğtaş Germany GmbH ("Doğtaş Germany")	Germany	Sales and marketing of furniture
2K Oturma Grupları İnşaat ve Taahhüt San. ve Tic. A.Ş. ("2K")	Turkey	Sales of sitting group
3K Mobilya Dekor. San. ve Tic. A.Ş. ("3K")	Turkey	Furniture decoration

The Company's subsidiaries, Doğtaş Holland B.V., Doğtaş Bulgaria Eood and Doğtaş Germany GmbH have been determined as immaterial subsidiaries with respect to the consolidated financial statements by the Group management and classified under available-for-sale financial assets in the condensed consolidated interim financial statements.

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

Adequacy of the Company's share capital under the Turkish Commercial Code:

As a result of the merger between Dođ-Taş Dođanlar Mobilya İmalat Enerji Üretim Sanayi A.Ş. and Kelebek Mobilya Sanayi ve Ticaret A.Ş. in 2013, share capital reached to TL 209,069,767 and while the share capital of the Company were increased to TL 159,069,767 "Reverse Merger Differences" account was charged at the same amount, with respect to Series I, No. 31 of the Communiqué on Principles Regarding Merger Transactions. Such entries were recorded under the books prepared in accordance with Turkish Commercial Code and Capital Market.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

2.1.1 Financial reporting standards

The condensed interim consolidated financial statements are prepared in accordance with Communiqué Serial II, No: 14.1, "Principles of Financial Reporting in Capital Markets" ("the Communiqué"). The condensed interim consolidated financial statements are presented in accordance with "Announcement regarding with TAS Taxonomy" which was published on 2 June 2016 by Public Oversight Accounting and Auditing Standards Authority ("POAASA") and the format and mandatory information recommended.

In accordance with the CMB resolution issued on 17 March 2005, listed companies operating in Turkey are not subject to inflation accounting effective from 1 January 2005 and the consolidated financial statements of the Group have been prepared accordingly.

The Group and its subsidiaries registered in Turkey maintain their accounting records and prepares their statutory financial statements in accordance with the principles issued by CMB, the Turkish Commercial Code ("TCC"), tax legislation, the Uniform Chart of Accounts issued by the Ministry of Finance. The foreign subsidiary maintains its books of account in accordance with the laws and regulations in force in the countries in which they are registered. These condensed interim consolidated financial statements have been prepared under historical cost conventions except for financial assets which are carried at fair value. The condensed interim consolidated financial statements are based on the statutory records, which are maintained under historical cost conventions, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with TAS.

2.1.2 Comparatives and restatement of prior periods' financial statements

The condensed consolidated financial statements of the Group include comparative financial information to enable the determination of the financial position and performance. Comparative figures are reclassified, where necessary, to conform to changes in presentation in the current period condensed consolidated financial statements.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL
INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017**

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

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.2 New and amended Turkish Financial Reporting Standards

a) *The new standards, amendments to published standards and interpretations applicable to 30 June 2017:*

- Amendments to TAS 7 ‘Statement of cash flows’ on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB’s Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.
- Amendments TAS 12 ‘Income Taxes’, effective from annual periods beginning on or after 1 January 2017. The amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.
- Annual improvements 2014–2016; TFRS 12, “Disclosure of interests in other entities” regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.

b) *The new standards, amendments and interpretations that are issued but not effective as of 30 June 2017:*

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017

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

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.2 New and amended Turkish Financial Reporting Standards (Continued)

- TFRS 16 ‘Leases’, effective from annual periods beginning on or after 1 January 2019 with earlier application permitted if TFRS 15, ‘Revenue from Contracts with Customers’, is also applied. This standard replaces the current guidance in TAS 17 and is a far-reaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a ‘right-of-use asset’ for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- Amendment to TAS 40, ‘Investment property’ relating to transfers of investment property, effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.
- Annual improvements 2014–2016;
 - TFRS 1, ‘First-time adoption of TFRS’, regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, TAS 19, and TFRS 10 effective 1 January 2018.
 - TAS 28, ‘Investments in associates and joint ventures’ regarding measuring an associate or joint venture at fair value effective 1 January 2018.
- TFRIC 22, ‘Foreign currency transactions and advance consideration’, effective from annual periods beginning on or after 1 January 2018. This TFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

Group will evaluate the effect of the aforementioned changes within its operations and apply changes starting from effective dates.

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017

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

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.3 Changes in accounting policies, estimates and errors

Significant changes in accounting policies or significant errors are corrected, retrospectively; by restating the prior period consolidated interim financial statements.

The effect of changes in accounting estimates affecting the current period is recognised in the current period; the effect of changes in accounting estimates affecting current and future periods is recognised in the current and future periods.

As of 30 June 2017, there are no significant accounting errors that the Group has identified in the accounting policies.

2.4 Summary of significant accounting policies

In accordance with the TAS 34, entities are allowed to prepare a complete or condensed set of interim financial statements. In this framework, the Group has preferred to prepare condensed consolidated financial statements in the interim periods. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements prepared for the year ended 31 December 2016.

2.4.1 Basis of consolidation

Condensed consolidated interim financial statements include the financial statements of the companies controlled by the Group in Note 1. The necessary adjustments have been made to eliminate between group companies sales and purchases, between group receivables and payables and intra-group capital and subsidiaries.

Subsidiaries are companies over which the Company has the power to control the financial and operating policies for the benefit of the Company, either (a) through the power to exercise more than 50% of the voting rights relating to shares in the companies as a result of ownership interest owned directly and indirectly by itself, or (b) although not having the power to exercise more than 50% of the ownership interest, and/or as a result of agreements by certain the Company members and companies owned by them whereby the Company exercises control over the ownership interest of the shares held by them; otherwise the power to exercise control over the financial and operating policies.

The table below sets out the subsidiaries and shows the proportion of ownership interests:

Subsidiaries	30 June 2017		31 December 2016	
	Direct and indirect ownership interest by the Group	Proportion of effective interest	Direct and indirect ownership interest by the Group	Proportion of effective interest
Doğtaş Pazarlama	100.00	100.00	100.00	100.00
2K	100.00	100.00	100.00	100.00
3K	100.00	100.00	100.00	100.00

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017

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

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

The Group fully consolidated the individual income and expenses and assets and liabilities. Investment in subsidiaries are eliminated with the capital of the subsidiaries invested.

Subsidiaries are consolidated from the date on which the control is transferred to the Group and are deconsolidated from the date that the control ceases. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

2.5 Going concern

The condensed consolidated interim financial statements were prepared under the going concern assumption.

The Group incurred high cost of financing and investing activities primarily due to its strategy which was based on rapid growing and increasing its market share through external borrowings. As at 30 June 2017, the Group's current liabilities exceeded its current assets by TL 109,614,877 (31 December 2016: TL 83,211,075). Within this context the Group management took below precautions:

In the subsequent period of these consolidated financial statements, the Group have come to an agreement for housing-furniture projects which have a total contract amount TL 24,594,658. Furthermore, starting from February 2017, value added tax ratio has been decreased to 8% from 18% and this regulation is expected to have 15% positive effect on furniture sales.

It is expected that the precautions determined by the Group and regulations regarding the market is going to have TL 39,845,602 positive effect to operating profit in 2017, with respect to 2017 budget which were approved by the Board of Directors.

Furthermore, the Group has generated TL 37,667,970 operating profit in the condensed consolidated interim statement of profit or loss for six-month period ended 30 June 2017 (31 December 2016: TL 6,337,740). In addition, the Group accounted profit before interest, tax and depreciation amounting to TL 44,679,596 in six-month period ended 30 June 2017 (Note 10).

Accordingly, management believes that the Group will be able to continue its operations in the foreseeable future.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL
INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017**

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

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.6 Significant accounting estimates and assumptions (Continued)

2.6.2 Revaluation of land, land improvements buildings and machinery and equipment

Land, land improvements and buildings that were revalued at 31 December 2016 by independent external valuers, were recorded on determined fair values on the consolidated financial statements. The fair value assessments of machinery and equipment were made on 2013. The frequency of revaluation operations is determined to ensure that the carrying amounts of the revalued tangible assets are not significantly different from their fair values at the end of the reporting period. The frequency of revaluation depends on the change in the fair value of property, plant and equipment. In cases where it is believed that the revalued amount is significantly different from the carrying amount of the revalued amount, it is necessary to repeat the revaluation and the assessment is performed for the entire asset level with revalued assets at the same date. Besides, it is not considered necessary to repeat the revaluation for tangible assets whose fair value changes are insignificant.

There are various calculation methods to estimate best fair value calculation as follows:

- The fair value comparison method are found to be comparable to the new market with similar features in the existing market, to apply appropriate comparison procedures and to make various adjustments in comparable selling price.
- The fair value of buildings, land and land improvements are calculated in deference to amortisation and reconstruction cost on cost approach method.

The values that may occur during the realization of the purchase and sales transaction may differ from these values.

The values are determined by cost approach method are assessed as to whether or not there is any indication of impairment according to TAS 36 "Impairment of Assets" standard at the date of first presentation of the financial statements in the consolidated financial statements and related period ends.

2.6.2 Taxation on income

Deferred income tax assets are recognized to extent that the realisation of the related tax benefit through the future taxable profits is probable. Deferred income tax assets are recognized for tax losses carried forward and unused investment incentives to extent that the realisation of the related tax benefit is probable.

As at 30 June 2017, the Group recognised deferred income tax assets amounting to TL 10,804,882 (31 December 2016: TL 13,085,716) over the carryforward tax losses amounting to TL 54,024,409 (31 December 2016: TL 65,428,578).

The Group management estimated that carryforward tax losses amounting to TL 54,024,409 will be utilized considering its budgeted financial statements which were prepared in accordance with the approved 5-years business plan.

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL
INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017**

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

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2017	Additions	Disposals	Revaluation reserves	30 June 2017
Cost:					
Lands	43,773,000	-	-	-	43,773,000
Land improvements and buildings	77,882,324	-	-	-	77,882,324
Machinery, plant and equipment	75,917,058	41,539	(578,776)	37,321,364	112,701,185
Vehicles	1,486,795	-	-	-	1,486,795
Furniture and fixtures	45,717,698	1,906,922	(1,833)	-	47,622,787
Leasehold improvements	27,696,904	1,276,107	-	-	28,973,011
Construction in progress	3,135,143	8,562,556	-	-	11,697,699
	275,608,922	11,787,124	(580,609)	37,321,364	324,136,801
Accumulated depreciation:					
Land improvements and buildings	(17,805,324)	(284,494)	-	-	(18,089,818)
Machinery, plant and equipment	(44,659,338)	(368,968)	578,776	-	(44,449,530)
Vehicles	(1,486,795)	-	-	-	(1,486,795)
Furniture and fixtures	(27,789,491)	(1,735,296)	1,833	-	(29,522,954)
Leasehold improvements	(11,789,303)	(1,733,312)	-	-	(13,522,615)
	(103,530,251)	(4,122,070)	580,609	-	(107,071,712)
Net book value	172,078,671				217,065,089

As at 30 June 2017, total mortgages on property, plant and equipment of the Group amounting to EUR 70,000,000 and TL 60,000,000 (31 December 2016: EUR 70,000,000 and TL 22,500,000).

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL
INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017**

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

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2016	Additions	Disposals	Revaluation reserves	30 June 2016
Cost:					
Lands	31,773,097	-	-	-	31,773,097
Land improvements and buildings	61,241,460	67,000	-	-	61,308,460
Machinery, plant and equipment	74,767,138	138,117	(18,052)	-	74,887,203
Vehicles	1,949,995	-	(363,200)	-	1,586,795
Furniture and fixtures	39,723,063	2,539,037	-	-	42,262,100
Leasehold improvements	23,200,172	2,189,189	-	-	25,389,361
Construction in progress	5,518,949	2,367,069	-	-	7,886,018
	238,173,874	7,300,412	(381,252)	-	245,093,034
Accumulated depreciation:					
Land improvements and buildings	(15,858,191)	(677,623)	-	-	(16,535,814)
Machinery, plant and equipment	(42,601,507)	(998,330)	18,052	-	(43,581,785)
Vehicles	(1,980,538)	(90,607)	363,200	-	(1,526,731)
Furniture and fixtures	(23,120,052)	(2,036,280)	-	-	(25,337,546)
Leasehold improvements	(7,276,805)	(2,218,945)	-	-	(9,495,750)
	(90,837,093)	(6,021,785)	381,252	-	(96,477,626)
Net book value	147,336,781			-	148,615,408

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017

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

NOTE 4 - BORROWINGS

The details of the borrowings as of 30 June 2017 and 31 December 2016 are as follows:

	30 June 2017		TL
	Effective interest rate per annum (%)	Original currency	
Short-term borrowings:			
EUR denominated bank borrowings	2-6	17,848,760	71,448,586
TL denominated bank borrowings	16-17	57,674,921	57,674,921
			129,123,507
Short-term portion of long-term borrowings:			
EUR denominated bank borrowings	2-6	8,421,953	33,713,078
TL denominated bank borrowings	16-17	11,662,450	11,662,450
			45,375,528
Total short-term borrowings			174,499,035
Long-term bank borrowings:			
EUR denominated bank borrowings	2-6	16,047,521	64,238,227
TL denominated bank borrowings	16-17	9,970,604	9,970,604
			248,707,866
	31 December 2016		
	Effective interest rate per annum (%)	Original currency	TL
Short-term borrowings:			
EUR denominated bank borrowings	0.75 - 5.52	16,558,668	61,431,002
TL denominated bank borrowings	13.75 - 15.80	33,773,129	33,773,129
			95,204,131
Short-term portion of long-term borrowings:			
EUR denominated bank borrowings	0.75 - 5.52	11,456,645	42,503,009
			137,707,140
Long-term bank borrowings:			
EUR denominated bank borrowings	0.75 - 5.52	24,592,407	91,235,372
			228,942,512

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017

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

NOTE 4 - BORROWINGS (Continued)

The redemption schedule of borrowings as at 30 June 2017 and 31 December 2016 is as follows:

	30 June 2017	31 December 2016
Up to 3 months	29,685,447	79,829,059
3 - 12 months	123,944,452	57,878,081
1 - 5 years	95,077,967	91,235,372
	248,707,866	228,942,512

NOTE 5 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions

	30 June 2017	31 December 2016
Provision for litigations	887,798	887,798
Provision for warranty expenses	837,349	669,879
Provision for project expenses	37,944	628,094
	1,763,091	2,185,771

Long-term provisions

	30 June 2017	31 December 2016
Provision for warrant expenses	1,040,541	832,676

Contingent assets and liabilities:

As at 30 June 2017, total mortgages on property, plant and equipment of the Group amounting to EUR 70,000,000 and TL 60,000,000 (31 December 2016: EUR 70,000,000 and TL 22,500,000).

Details of guarantees received and given is presented below:

Guarantees given

	30 June 2017	31 December 2016
Letters of guarantees given (*)	302,710,000	282,193,000
Letters of guarantees given to government institution (**)	107,518,973	103,087,036
Letters of guarantees given to customers	3,257,021	1,769,566
Letters of guarantees given to suppliers	540,994	589,438
	414,026,988	387,639,040

(*) Mortgages on property, plant and equipment are related to loans used for purchasing and financing purposes.

(**) Consists of letters of guarantees given to Türkiye İhracat Kredi Bankası A.Ş. with respect to loans used mainly.

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017

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

NOTE 5 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

Guarantees received

	30 June 2017	31 December 2016
Letter of guarantees received from franchisees	73,555,039	100,932,235
Mortgages received from domestic franchisees	17,620,073	17,916,135
Mortgages received from foreign franchisees	9,133,941	7,804,616
	100,309,053	126,652,986

Details of guarantees, mortgages and pledges given by the Group as at 30 June 2017 and 31 December 2016 is presented as follows:

	30 June 2017	31 December 2016
Total amount of guarantees, pledges and mortgages given on behalf of its own legal name	414,026,988	395,531,585

The GPMs given by the Group comprise of letter of guarantees on behalf of its own legal name. Below GPMs were given by the Group:

- On behalf of associates that are included to full consolidation
- On behalf of third parties to conduct business activities
- On behalf of majority shareholder
- On behalf of other group companies which are not included in item B or C
- On behalf of third parties which are not covered by item C

The total number of ordinary shares of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. is 19,256,976,700 with a par value of TL 0.01 and all was pledged due to the Group's borrowings on 30 June 2017 and 31 December 2016. Furthermore, Doğtaş Pazarlama is under commercial pledge with regard to the aforementioned borrowing.

Total insurance value on property, plant and equipment and inventories is TL 116,809,300 and TL 156,000,000 respectively (31 December 2016: TL 69,362,700 and TL 42,684,000, respectively).

Operating leases

The future payments for operational leases that cannot be canceled are as follows:

	30 June 2017	31 December 2016
Up to 1 year	268,250	348,000
1 - 2 years	268,250	348,000
	536,500	696,000

As of 30 June 2017, the Group has recognised an operating lease amounting to TL 159,500 (31 December 2016: TL 700,000) in the consolidated statement of profit or loss.

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017

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

NOTE 6 - TAX ASSETS AND LIABILITIES

Provision for current income tax:

Turkish tax legislation does not allow for the submission of tax returns over consolidated financial statements, which include its subsidiaries, joint ventures and associates. Therefore, tax considerations reflected in consolidated financial statements have been calculated on a separate-entity basis.

The Turkish corporation tax rate for 30 June 2017 is 20% (31 December 2016: 20%). This rate is applicable to the tax base derived upon exemptions and deductions stated in the tax legislation through addition of disallowable expenses to the commercial revenues of the companies with respect to the tax legislation.

Taxes on profit for the period consist of the following:

	30 June 2017	31 December 2016
Prepaid taxes (-)	(175,250)	(156,475)
Current income tax assets (-)	(175,250)	(156,475)

Taxation on income in the consolidated interim income statements are as follows:

	30 June 2017	31 December 2016
Current tax expense	-	-
Deferred tax (expense)/income	(2,027,444)	2,460,130
	(2,027,444)	2,460,130

Corporate tax

Turkish tax legislation does not allow for the submission of tax returns over consolidated financial statements, which include its subsidiaries. Therefore, tax considerations reflected in consolidated financial statements have been calculated on a separate-entity basis.

Corporation tax is payable at a rate of 20% on the total income of each local company after adjusting for certain disallowable expenses, exempt income and allowances.

Corporation tax rate is applied to the tax base that will result in deducting expenses that are not accepted as deductible according to the tax legislation of the corporation's commercial income, deduction in the tax laws (exemption of participation profits etc.) and deductions (such as deduction). No further tax is payable if the profit is not distributed.

Dividends paid to non-resident corporations which have a place of business in Turkey and for resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital resulting from issuing bonus shares is not considered a profit distribution and thus does not incur withholding tax.

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017

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

NOTE 6 - TAX ASSETS AND LIABILITIES (Continued)

Corporations are required to declare a provisional tax of 20% on their quarterly financial profits and pay till the 10th day of the second month following that period and pay till the evening of the 17th day. The temporary tax paid during the year belongs to that year and is deducted from the corporation tax that will be calculated on the tax declaration of the institutions to be given in the following year. If the temporary tax amount paid remains in spite of the indictment, this amount can be refunded or any other financial debt to the state can be deducted.

There is no practice to reconcile with the tax authority on the taxes payable in Turkey. The corporation tax returns are given to the tax attached until the evening of the 25th day of the fourth month following the close of the accounting period.

Authorities may review the accounting records for a period of five years retroactively and may change the tax amounts due to the tax assessment that arises if an incorrect transaction is detected.

According to Turkish tax legislation, financial losses shown on the tax return can be deducted from the period corporate income for not more than 5 years. However, financial losses can not be deducted from retained earnings.

Investment allowance regime was applied in Turkey for many years and calculated with 40% of property plant and purchases acquisitions exceeding a certain amount was abolished by Law No 5479 dated 30 March 2006. However, in accordance with the temporary article 69 of the Income Tax Law, income and corporate taxpayers can deduct following investment allowance amounts which they could not offset against 2005 gains which were present at 31 December 2005:

- a) Investment amounts, within the scope of addendum 1, 2, 3, 4, 5 and 6 of Income Tax Law no: 193, which were started before abolishment of aforementioned Income Tax Law by Law no: 4842 dated 9 April 2003
- b) Incentives based on investments which were calculated in accordance with the legislation as at 31 December 2005 and formed an economic and technical integrity with the investment started before 1 January 2006 within the scope of abrogated 19th article of Income Tax Law no: 193, can be deducted from income related to the years 2006, 2007 and 2008.

Deferred tax:

The Group recognises deferred income tax assets and liabilities based upon temporary differences arising between their financial statements prepared in accordance with TFRS and their statutory tax financial statements. Deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income under the liability method using an enacted tax rate.

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017

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

NOTE 6 - TAX ASSETS AND LIABILITIES (Continued)

The breakdown of cumulative temporary differences and the resulting deferred income tax assets/liabilities provided using enacted tax rates are as follows:

	<u>Cumulative temporary differences</u>		<u>Deferred income tax assets/(liabilities)</u>	
	<u>30 June 2017</u>	<u>31 December 2016</u>	<u>30 June 2017</u>	<u>31 December 2016</u>
Deferred tax asset:				
Carryforward tax losses	54,024,409	65,428,578	10,804,882	13,085,716
Investment incentives	13,382,640	13,382,640	2,676,528	2,676,528
Promotions	7,900,625	-	1,580,125	-
Provision for doubtful receivables	8,877,126	9,037,307	1,775,425	1,807,461
Provision for unused vacation	3,825,034	2,566,228	765,007	513,246
Provision for warranty	2,654,780	1,502,555	530,956	300,511
Provision for employment termination benefit	2,082,327	2,082,327	416,465	416,465
Provision for litigations	887,798	887,798	177,560	177,560
Other	1,702,850	247,852	340,570	49,570
			19,067,518	19,027,057
Deferred tax liabilities:				
Tangible and intangible assets	(159,259,783)	(96,882,565)	(27,097,997)	(19,376,513)
Cut-off	(7,041,615)	(2,685,479)	(1,408,323)	(537,096)
Other	(4,697,334)	-	(939,467)	-
			(29,445,787)	(19,913,609)
Deferred tax liabilities, net			(10,378,269)	(886,552)

The reconciliation of tax expense stated in the consolidated income statements is as follows:

	30 June 2017	30 June 2016
Profit/(Loss) before tax	7,229,327	(8,546,281)
Tax calculated at enacted tax rate	(1,445,865)	1,709,256
Non-deductible expenses	(755,735)	(248,402)
Other	174,156	122,755
Total tax (expense)/income	(2,027,444)	1,583,609

Carry forward tax losses:

Deferred income tax assets are recognized for tax losses carried forward to extent that the realization of the related tax benefit through the future taxable profits is probable.

As at 30 June 2017, the Group has recognised deferred income tax assets amounting to TL 10,804,882 (31 December 2016: TL 13,085,716) over the carry forward tax losses amounting to TL 54,024,409 (31 December 2016: TL 65,428,578) in the consolidated interim financial statements.

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017

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

NOTE 6 - TAX ASSETS AND LIABILITIES (Continued)

The expiration dates of such carry forward tax losses are as follows:

	30 June 2017	31 December 2016
2018	-	579,703
2019	466,451	7,187,347
2020	11,401,343	16,470,292
2021	42,156,615	41,191,236
	54,024,409	65,428,578

Movements in deferred income taxes are as follows:

	2017	2016
1 January	(886,552)	654,674
(Charged)/Credited to statement of profit or loss	(2,027,444)	1,583,609
(Charged)/Credited to statement of other comprehensive income	(7,464,273)	102,982
30 June	(10,378,269)	2,341,265

NOTE 7 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a) Trade receivables and payables due from related parties as of 30 June 2017 and 31 December 2016 are as follows:

	30 June 2017	31 December 2016
Due from related parties:		
Doğtaş Germany GmbH	2,066,027	1,653,592
Doğtaş Bulgaria Eood	445,205	515,296
Doğtaş Holland B.V.	440,622	510,597
International Furniture B.V.	115,514	103,940
Doğanlar Yatırım Holding A.Ş.	33,513	-
Other	280,211	413,942
	3,381,092	3,197,367
Due to related parties:		
Real person shareholders	10,758,303	863
Doğanlar Yatırım Holding A.Ş.	8,330,846	69,486
	19.089.149	70.349

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017

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

NOTE 7 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

b) Rendered of goods and services to related parties as at 30 June 2017 and 2016 are as follows:

Sales and services rendered:

	1 January - 30 June 2017	1 April 30 June 2017	1 January - 30 June 2016	1 April 30 June 2016
Doğtaş Germany GmbH	471,249	130,717	556,824	200,402
Doğanlar Yatırım Holding A.Ş.	22,984	10,962	226,683	178,218
Other	17,534	10,034	22,924	8,475
	511,768	151,714	806,431	387,095

c) Purchase and of goods and services to related parties as of 30 June 2017 and 2016 are as follows:

Sales and services purchased:

	1 January - 30 June 2017	1 April 30 June 2017	1 January - 30 June 2016	1 April 30 June 2016
Doğan Kent Elektrik Enerjisi Toptan Satış A.Ş.	1,479,459	760,210	1,697,906	859,891
Doğanlar Yatırım Holding A.Ş.	885,618	873,618	354,608	76,500
Other	-	-	7,715	6,212
	2,365,078	1,633,829	2,060,229	942,603

d) Key management compensation:

	30 June 2017	30 June 2016
Short term compensation	2,003,302	2,074,695
	2,003,302	2,074,695

The Group has determined key management personnel as the chairman, members of the Board of Directors and general manager of the Company.

NOTE 8 - FINANCIAL RISK MANAGEMENT

Credit Risk

In connection with trade receivables arising from credit sales and deposits held in the banks, the Group is exposed to credit risk.

Credit risk is managed on Group and entity basis, except for credit risk relating to accounts receivable balances. Each entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

The management assesses the credit quality of its customers, taking into account financial position, past experience and other factors. The Group monitors the performance of these financial assets on a regular basis to identify incurred collection losses.

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017

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

NOTE 8 - FINANCIAL RISK MANAGEMENT (Continued)

	Receivables				Cash and Cash equivalents	Derivative financial instruments
	Trade		Other			
	Due from related parties	Other	Due from related parties	Other		
Maximum exposure to credit risk for financial assets						
Maximum exposure to credit risk as of 30 June 2017 (A+B+C+D+E)	3,381,092	82,544,016	-	4,034,019	3,143,109	-
A. Neither past due nor impaired	3,381,092	52,121,164	-	4,034,019	3,143,109	-
B. Restructured	-	-	-	-	-	-
C. Past due but not impaired	-	30,422,852	-	-	-	-
D. Impaired	-	-	-	-	-	-
- Past due	-	-	-	-	-	-
- Gross carrying amount	-	19,487,039	-	-	-	-
- Impairment (-)	-	(19,487,039)	-	-	-	-
- <i>The part of net value under guarantee with collateral</i>	-	-	-	-	-	-
- Not past due	-	-	-	-	-	-
- Gross carrying amount	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- <i>The part of net value under guarantee with collateral</i>	-	-	-	-	-	-
Maximum exposure to credit risk as of 31 December 2016 (A+B+C+D+E)	3,197,367	77,917,009	-	3,971,252	737,786	-
A. Neither past due nor impaired	3,197,367	58,262,360	-	3,971,252	737,786	-
B. Restructured	-	-	-	-	-	-
C. Past due but not impaired	-	19,654,649	-	-	-	-
D. Impaired	-	-	-	-	-	-
- Past due	-	-	-	-	-	-
- Gross carrying amount	-	18,594,824	-	-	-	-
- Impairment (-)	-	(18,594,824)	-	-	-	-
- <i>The part of net value under guarantee with collateral</i>	-	-	-	-	-	-
- Not past due	-	-	-	-	-	-
- Gross carrying amount	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- <i>The part of net value under guarantee with collateral</i>	-	-	-	-	-	-

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017

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

NOTE 8 - FINANCIAL RISK MANAGEMENT (Continued)

Aging analysis of past due but not impaired trade receivables are as follows:

	30 June 2017	31 December 2016
Less than 30 days	2,386,964	1,838,230
30 - 119 days	5,352,952	3,866,457
120 - 179 day	12,302,454	4,289,204
180 days and over	10,380,482	9,660,758
	30,422,852	19,654,649

Liquidity risk

Liquidity risk comprises the risks arising from the inability to fund the increase in the assets, the inability to cover the liabilities due and the operations performed in illiquid markets. In the framework of liquidity risk management, funding sources are being diversified and sufficient cash and cash equivalents are held. In order to meet instant cash necessities it is ensured that the cash and cash equivalent assets level does not fall below a predetermined portion of the short-term liabilities.

Contractual cash flows of the financial liabilities of the Group as at 30 June 2017 and 31 December 2016 are as follows:

30 June 2017	Demand or up to 3 months	3-12 month	1-5 years	Total
Non-derivative instruments				
Borrowings	29,685,447	123,944,452	95,077,967	248,707,866
Trade payables	61,848,497	56,354,713	90,000	118,293,210
<i>Third parties</i>	<i>61,848,497</i>	<i>56,354,713</i>	<i>90,000</i>	<i>118,293,210</i>
Other payables	-	1,110,840	314,783	1,425,623
<i>Third parties</i>	<i>-</i>	<i>1,110,840</i>	<i>314,783</i>	<i>1,425,623</i>
	91,533,944	181,410,005	95,482,750	368,426,699

31 December 2016	Demand or up to 3 months	3-12 month	1-5 years	Total
Non-derivate instruments				
Borrowings	83,496,697	66,771,803	106,147,113	256,415,613
Trade payables	105,628,402	26,328,943	-	131,957,345
<i>Related parties</i>	<i>70,349</i>	<i>-</i>	<i>-</i>	<i>70,349</i>
<i>Third parties</i>	<i>105,558,053</i>	<i>26,328,943</i>	<i>-</i>	<i>131,886,996</i>
Other payables	-	975,118	906,312	1,881,430
<i>Third parties</i>	<i>-</i>	<i>975,118</i>	<i>906,312</i>	<i>1,881,430</i>
	189,125,099	94,075,864	107,053,425	390,254,388

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017

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

NOTE 8 - FINANCIAL RISK MANAGEMENT (Continued)

Interest Rate Risk

The Group manages its interest rate risk by applying risk management strategies whereby its strives to balance off the dates of changes in interest rates related to assets and liabilities.

Interest rate positions are as follows:

	30 June 2017	31 December 2016
<u>Financial instruments with fixed interest rates</u>		
Financial liabilities	119,741,312	51,872,854
<u>Financial instruments with floating interest rates</u>		
Financial liabilities	125,532,343	174,970,388

Foreign Exchange Risk

As the functional currency of the Group is TL, the Group monitors its foreign exchange risk by analysing the foreign currency denominated (mainly USD and EUR) assets and liabilities. The Group defines the foreign currency risk as the mismatch between foreign currency denominated assets and liabilities.

Foreign currency denominated assets and liabilities as of 30 June 2017 and 31 December 2016 is set out in the table below:

	30 June 2017	31 December 2016
USD	3.5071	3.5192
EUR	4.0030	3.7099

The Group is exposed to currency risk in USD and EUR.

Foreign currency position

Assets and liabilities denominated in foreign currency held by the Group are as follows:

	30 June 2017	31 December 2016
Assets	32,976,334	28,717,457
Liabilities	(170,066,614)	(146,140,794)
Net foreign currency position	(137,090,280)	(117,423,337)

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE PERIOD BETWEEN 1 JANUARY - 30 JUNE 2017

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

NOTE 8 - FINANCIAL RISK MANAGEMENT (Continued)

Assets and liabilities denominated in foreign currency held by the Group are as follows:

30 June 2017		Foreign currency position			Other
		TL equivalent (functional currency)	USD	EUR	
1.	Trade receivables	32,874,021	1,692,279	6,729,710	-
2a.	Monetary financial assets, (cash and banks account included)	102,313	1,008	24,676	-
2b.	Non-monetary financial assets	-	-	-	-
3.	Other	-	-	-	-
4.	Current assets (1+2+3)	32,976,334	1,693,287	6,754,386	-
5.	Trade receivables	-	-	-	-
6a.	Monetary financial assets	-	-	-	-
6b.	Non-monetary financial assets	-	-	-	-
7.	Other	-	-	-	-
8.	Non-current assets (5+6+7)	-	-	-	-
9.	Total assets (4+8)	32,976,334	1,693,287	6,754,386	-
10.	Trade payables	(666,708)	-	(166,552)	-
11.	Financial liabilities	(71,448,590)	-	(17,848,761)	-
12a.	Other monetary liabilities	-	-	-	-
12b.	Other non-monetary liabilities	-	-	-	-
13.	Current liabilities (10+11+12)	(72,115,298)	-	(18,015,313)	-
14.	Trade payables	-	-	-	-
15.	Financial liabilities	(97,951,316)	-	(24,469,477)	-
16a.	Other monetary liabilities	-	-	-	-
16b.	Other non-monetary liabilities	-	-	-	-
17.	Long-term liabilities (14+15+16)	(97,951,316)	-	(24,469,477)	-
18.	Total liabilities (13+17)	(170,066,614)	-	(42,484,790)	-
19.	Net assets of off balance sheet	-	-	-	-
	derivative items (liability) position (19a-19b)	-	-	-	-
19a.	Total amount of assets hedged	-	-	-	-
19b.	Total amount of liabilities hedged	-	-	-	-
20.	Net foreign monetary assets/(liabilities) position (9+18+19)	(137,090,280)	1,693,287	(35,730,404)	-
21.	Net foreign currency asset / (liability) position of monetary items (=1+2a+3+5+6a+10+11+12a+14+15+16a)	(137,090,280)	1,693,287	(35,730,404)	-
22.	Fair value of derivative instruments used in foreign currency hedge	-	-	-	-
23.	Export	21,850,885	2,354,202	3,396,069	-
24.	Import	7,500,264	536,940	1,403,238	-

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

NOTE 8 - FINANCIAL RISK MANAGEMENT (Continued)

31 December 2016	Foreign currency position			
	TL equivalent (functional currency)	USD	EUR	Other
1. Trade receivables	28,699,767	1,516,181	6,297,750	-
2a. Monetary financial assets, (cash and banks account included)	17,690	1,061	3,761	-
2b. Non-Monetary financial assets	-	-	-	-
3. Other	-	-	-	-
4. Current assets (1+2+3)	28,717,457	1,517,242	6,301,511	-
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non-Monetary financial assets	-	-	-	-
7. Other	-	-	-	-
8. Non-Current Assets (5+6+7)	-	-	-	-
9. Total asset (4+8)	28,717,457	1,517,242	6,301,511	-
10. Trade payables	(718,608)	-	(193,700)	-
11. Financial liabilities	(56,925,965)	-	(15,344,339)	-
12a. Other monetary liabilities	-	-	(1,141,248)	-
12b. Other non-monetary liabilities	-	-	-	-
13. Current Liabilities (10+11+12)	(57,644,573)	-	(16,679,287)	-
14. Trade payables	-	-	-	-
15. Financial Liabilities	(88,496,221)	-	(23,854,072)	-
16a. Other monetary liabilities	-	-	-	-
16b. Other non-monetary liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	(88,496,221)	-	(23,854,072)	-
18. Total liabilities (13+17)	(146,140,794)	-	(40,533,359)	-
19. Net assets of off balance sheet	-	-	-	-
derivative items (liability) position (19a-19b)	-	-	-	-
19a. Total amount of assets hedged	-	-	-	-
19b. Total amount of liabilities hedged	-	-	-	-
20. Net foreign assets / (liability) position (9+18+19)	(117,423,337)	1,517,242	(34,231,848)	-
21. Net foreign currency asset / (liability) / (position of monetary items (=1+2a+3+5+6a+10+11+12a+14+15+16a))	(117,423,337)	1,517,242	(34,231,848)	-
22. Fair value of derivative instruments used in foreign currency hedge	-	-	-	-
23. Export	37,353,252	2,833,513	7,380,671	-
24. Import	9,636,139	501,823	2,121,384	-

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NOTE 8 - FINANCIAL RISK MANAGEMENT (Continued)

As of 30 June 2017, if USD had appreciated/depreciated by 10% against TL, with all other variables held constant, loss before taxation on income would have been TL 593,858 lower/ higher, mainly as a result of foreign exchange losses/gains on the translation of the foreign currency position. (31 December 2016: TL 533,948)

As of 30 June 2017, if EUR had appreciated/depreciated by 10% against TL, with all other variables held constant, loss before taxation on income would have been TL 14,302,881 lower/ higher, mainly as a result of foreign exchange losses/gains on the translation of the foreign currency position. (31 December 2016: TL 12,699,673)

Capital risk management

In capital management, the Group aims to enable continuity of the Group's operations and to maintain the most suitable capital structure so as to provide earnings to its partners and benefits to other shareholders and to decrease capital cost.

In order to maintain or re-arrange the capital structure, the Group may change the amount of dividends paid to shareholders, return the capital to shareholders, issue new shares, and sell its assets in order to decrease the level of its borrowings.

NOTE 9 - FINANCIAL INSTRUMENTS ADDITIONAL DISCLOSURES

Fair value of financial instruments

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 could realise in a current market exchange.

Financial assets - Due to their short-term nature and being subject to insignificant credit risk, it is considered that they are close to the fair values of cash and cash equivalents and the carrying values of accrued interest and other financial assets. The carrying amount of trade receivables is considered to approximate their fair value when the provision for doubtful receivables is deducted.

Financial liabilities - Trade payables and other monetary liabilities are considered to approximate their carrying values due to their short-term nature. Bank loans are stated at amortised cost and transaction costs are added to the initial cost of the loans. Long-term Euro bank loans are considered to be worthy of their fair value because their interest rates have been updated to reflect changing market conditions. Short term fixed rate TL loans are assumed to reflect fair value because their maturity is short.

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NOTE 10 - ADDITIONAL DISCLOSURES THAT ARE NOT REQUIRED UNDER TAS

EBITDA, are not defined by TAS. These items determined by the principles defined by the Group management comprises incomes/expenses which are assumed by the Group management that are not part of the normal course of business and are non-recurring items. These items which are not defined by TAS are disclosed by the Group management separately for a better understanding and measurement of the sustainable performance of the Group.

	1 January - 30 June 2017	1 January - 30 June 2016
Net profit/(loss) for the period	5,201,883	(6,962,672)
Tax	2,027,444	(1,583,609)
Financial income	(24,117,958)	(8,796,400)
Financial expense	54,561,080	24,916,684
Depreciation	5,748,341	6,934,336
Provision for employment termination benefit	-	1,862,233
Provision for unused vacation liabilities	1,258,806	619,170
EBITDA	44,679,596	16,989,742

NOTE 11 - EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit or loss attributable to equity holders of the Company by the weighted average of the number of shares of common stock outstanding during the fiscal year excluding the ownership interest in the equity shares issued and repurchased by the shareholders of equity shares issued during the year:

	30 June 2017	30 June 2016
Net income or loss attributable to the owners of the parent	5,201,883	(6,962,672)
Weighted average number of shares in issue	20,552,245,211	20,903,445,487
Earnings/(losses) per share	0.0002	(0.0003)