



30<sup>th</sup> YEAR  
CALIK DENIM

ANNUAL REPORT 2017

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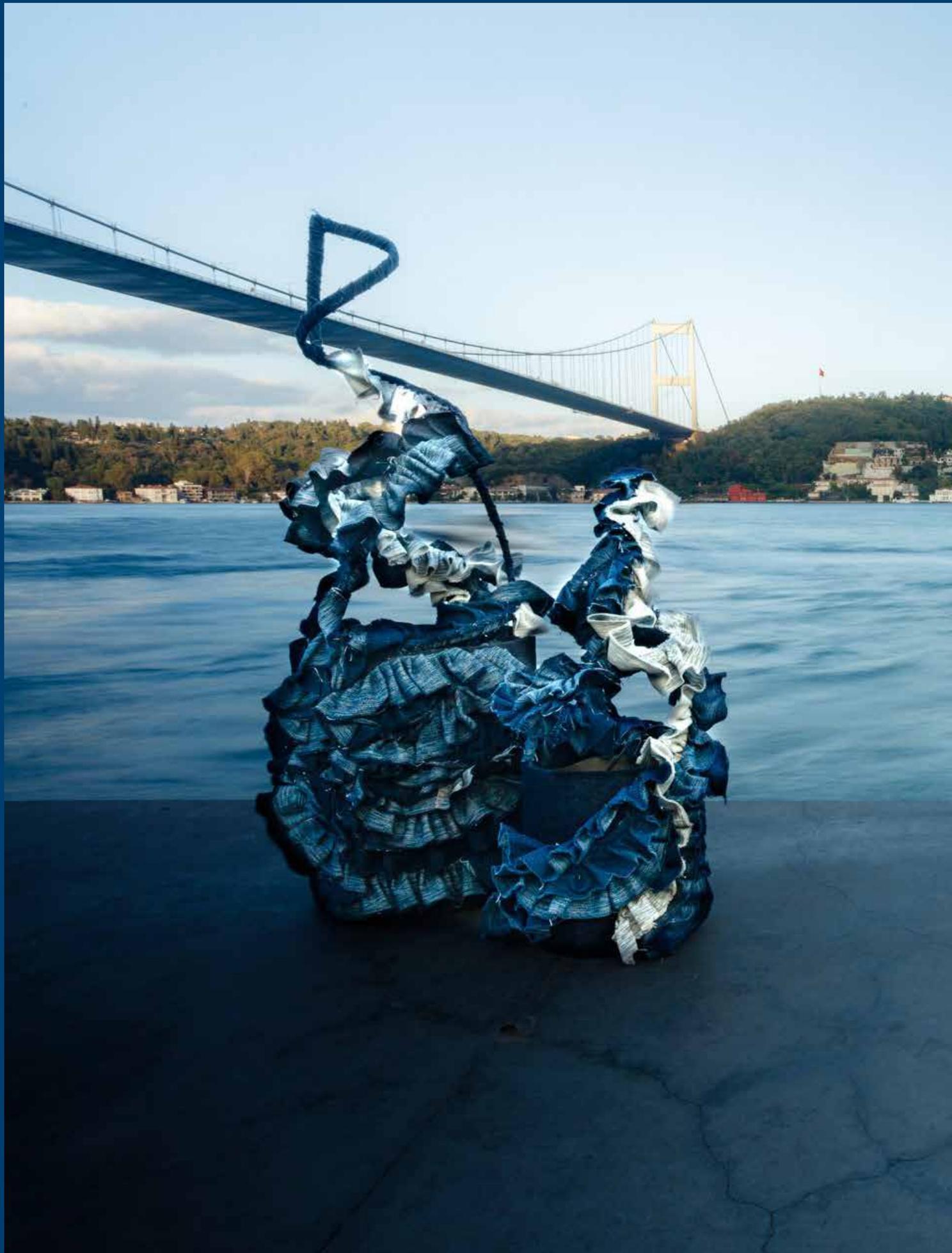


**Ranked among the world's top 10 manufacturers of premium denim, Çalık Denim celebrated its 30th anniversary this year with events in İstanbul, Amsterdam and Los Angeles.**

**Celebrating its 30th year with the creations of 30 young international designers, the Company issued a call for design and interior architecture students from the world's most prestigious universities: 30 young designers were selected from among the applicants to create the Denim Loves Art exhibition.**

**Selected by an international jury, the designers produced not only clothing, but products ranging from furniture, accessories, shoes, bags and rugs – highlighting the prevalence of denim in every sphere of our daily lives.**

**We are extremely pleased to present our 2017 operations, accompanied by images of these distinctive, original products.**



## Çiğdem Karaata

### Tangle, Denim Light

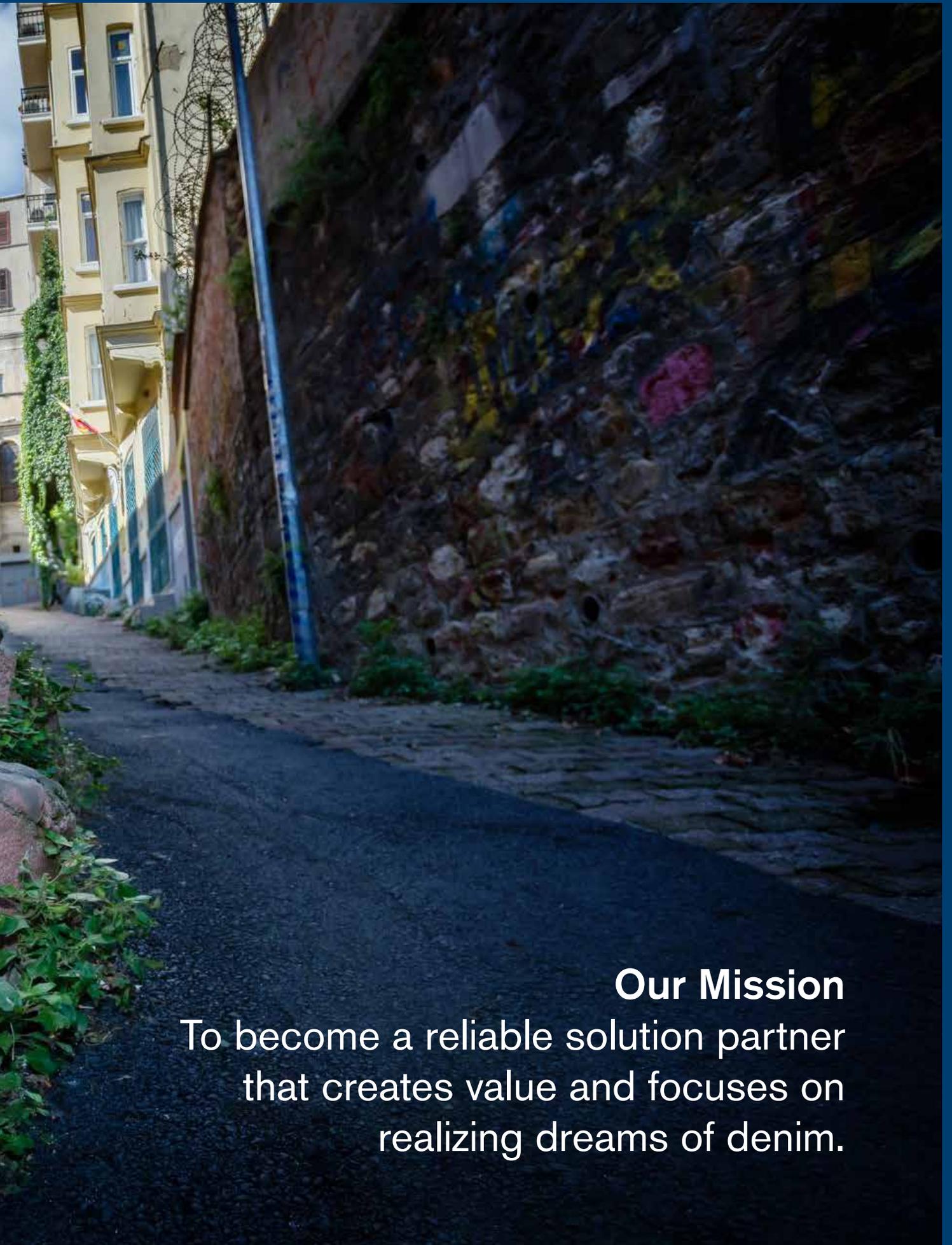
-  
24 years old, lives in Istanbul.  
Studies Interior Architecture at Mimar  
Sinan Fine Arts University.

#### **Story behind the Art:**

The designer draws the user into the design process with this experimental seat. The cylindrical one-piece object, measuring nine meters in length, is shaped by the user to provide a comfortable, enjoyable and unique experience. Denim Light: The design harmonizes the fluid shape of denim with the form of lighting, chiming in sequence with local illumination on light surfaces







## **Our Mission**

To become a reliable solution partner  
that creates value and focuses on  
realizing dreams of denim.

## ÇALIK DENIM IN BRIEF

Established in 1987 in Malatya, Çalık Denim today manufactures a wide array of products in an enclosed area of 194,080 m<sup>2</sup>, boasts an annual production capacity of 44 million meters, and employs more than 1,900 personnel.

Of cardinal importance in the Group's history as Çalık Holding's first industrial investment, the history of Çalık Denim dates from 1987 in Malatya. Established with an initial investment of US\$ 111 million, Çalık Denim today manufactures a wide array of products in an enclosed area of 194,080 m<sup>2</sup>, boasts an annual production capacity of 44 million meters, and employs more than 1,900 personnel.

Starting the production of denim fabric in 1996 following infrastructural developments at the integrated yarn and weaving factory in Malatya, Çalık Denim maintained its steady growth and commissioned its ring spinning plant in 1997. As of 2003, the Company has continued to develop its product range, which includes gabardine / velvet fabric products, by expanding its integrated market share and brand awareness in new countries with effective production and marketing strategies.

With the Ministry of Science, Industry and Technology certification of the R&D Center in 2011, Çalık Denim opened the seventh R&D Center in the Turkish textile sector; the Company has since become a scientific research center, reflecting its wide experience of advanced technology implementation in the sector. Today, Çalık Denim breaks new ground at its R&D center and manufactures fabrics that expand the vision of the Turkish and global textile sector.

As a robust and reliable supplier in the eyes of the global textile sector's most prestigious brands, Çalık Denim continues its operations at its factory in Malatya and its Sales & Marketing Center in Istanbul. Leading brands in the fashion industry, including Diesel, Mavi, Topshop, Pepe Jeans, Tommy Hilfiger, Never Denim, Frame Denim, Alexander Wang, Mother Jeans, True Religion Jeans, AG Jeans, J Crew, Guess, M&S, Ann Taylor, G Star, Salsa, Next, Jack Jones, H&M, VF, Inditex, Ahlers, Replay, Scotch&Soda, Calvin Klein, River Island, Hugo Boss and Gerry Weber, prefer Çalık Denim's products that add to brand equity.

Recognized among the world's leading denim manufacturers, Çalık Denim markets its products to more than 40 countries, including Germany, the USA, the UK, the Netherlands, France, Portugal, Italy, Tunisia, Morocco, and Colombia as well as Scandinavia and East Asia. The company received close to 40% of its fabric revenues from direct exports and sells 90% of its products to overseas brands, which is tantamount to indirect exports from Turkey.

Under the brand Çalık Denim, the Company contributes to the Turkish economy with products that make a difference in the denim and gabardine fabric segment. Çalık Denim was accepted into the Turquality National Brand-Building Program. The Company serves as an example for the textile sector by supporting environmentally-friendly practices within its extensive portfolio. Çalık Denim also holds GOTS, GRS, OE100 and OE Blended certifications, confirming the Company's environmentally sensitive operations.







### **Amber Ambrose Aurèle**

Rainbow Blue, Mischief

-  
30 years old, lives in Amsterdam.  
Graduated with a Master of Arts in Shoe Design from ArtEZ Arnhem and a Master of Arts in Art History from the University of Amsterdam.

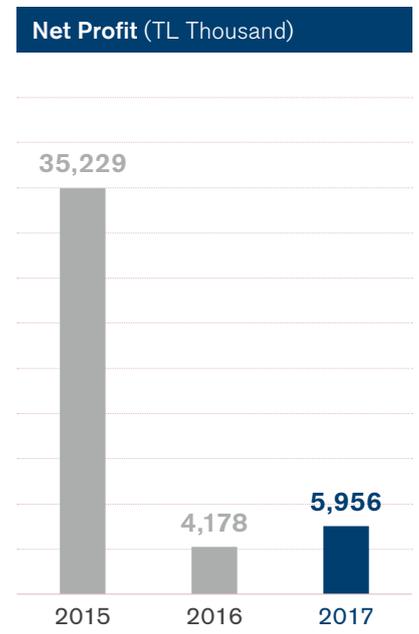
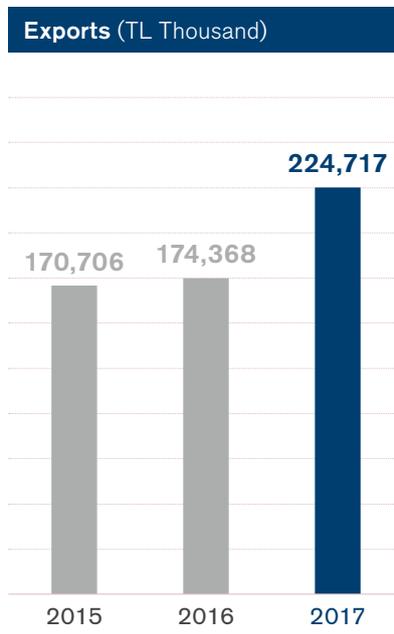
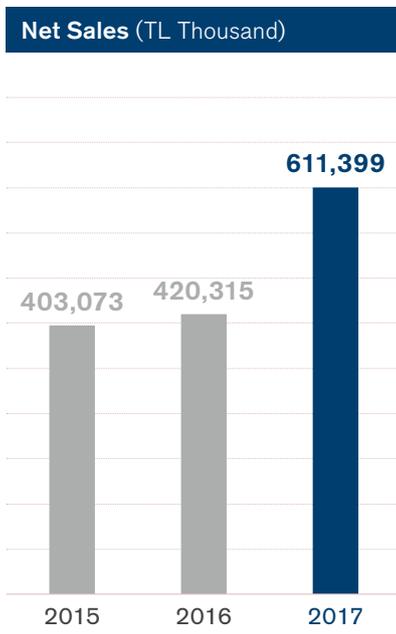
#### **Story behind the Art:**

Rather than the traditional denim jeans, the designer envisioned the perfect denim shoes. The design combines the elegance of high heels with tactile, hard-wearing and rustic denim fabrics.

# KEY FINANCIAL AND OPERATIONAL INDICATORS

Çalık Denim continues to contribute to the Turkish textile sector and the Turkish economy with its investments exceeding US\$ 130 million between 2010-2017, and an almost 21% increase in the employment level.

(TL thousand)	2016	2017
Net Sales	420,315	611,399
Gross Profit	137,593	216,583
Operating Profit	195,833	148,465
Profit before Taxes	(8,688)	6,816
Net Profit	4,178	5,956



**Export Markets (Gross)**

<b>Consolidated</b>	<b>Sales (TL Thousand)</b>	<b>%</b>
Tunisia	33,529	5
Germany	31,246	5
Italy	25,984	4
Bangladesh	17,738	3
UAE	12,783	2
USA	12,649	2
Dominican Republic	12,646	2
Portugal	10,472	2
Hong Kong	8,952	1
Egypt	8,387	1
China	7,220	1
France	5,381	1
South Korea	5,340	1
Indonesia	4,240	1
Morocco	3,206	1
Denmark	2,303	0
UK	2,266	0
Belgium	2,096	0
Estonia	2,092	0
India	1,799	0
Vietnam	1,537	0
Spain	1,390	0
Netherlands	1,231	0
Poland	1,170	0
Pakistan	940	0
Bulgaria	822	0
Taiwan	709	0
Japan	678	0
Australia	508	0
Romania	283	0
Antigua/Barbuda	114	0
Mexico	106	0
Greece	104	0
Sri Lanka	94	0
Serbia	75	0
Finland	48	0
Israel	15	0
Philippines	4	0
Czech Republic	2	0
Sweden	2	0
Mauritius	1	0
Switzerland	1	0





## **Our Vision**

To carry through its sustainably innovative force in the commercial arena and become a leading denim brand that creates added value for all stakeholders.





## **Asude Şenoğlu**

### Hidden Identity

-

26 years old, lives in Istanbul.  
Graduated from Fashion Design &  
Management at Istanbul Moda Academy.

#### **Story behind the Art:**

The story begins as society's brutal prejudice to the 'other' continues unabated. While everything revolves around the varied structuring of interwoven threads, the differences are called flaws, although they have no social class, gender, stereotypes or prejudice. So, wherever it goes, the story always returns to its beginning.

# MILESTONES

**1930**  
Malatya

Family company established.

**1987**  
Malatya

Çalık Denim founded.

**1993**  
Turkmenistan

Gap Türkmen founded.

**1995**  
Malatya

Denim production began.

**1998**  
Turkmenistan

Serdar Yarn Factory became operational.

**2001**  
Turkmenistan

Ashgabat Textile Factory started operations.



**2004**  
Malatya

Production of gabardine fabric initiated.

**2005**  
Turkmenistan

Balkan Weaving and Yarn Factory started operations.

**2007**  
Egypt

Çalık Alexandria became operational.

**2011**  
Malatya

Çalık Denim R&D Center opened and Çalık Pamuk founded.

**2017**  
Malatya

Malatya Boya Empirme ve Örne Şirketi (Dye Printing and Knitting Company) joined Çalık Denim.





**Beatrice Bellet**

Blue Levitation

-

19 years old, lives in Italy.

Studies at the Faculty of Decorative Arts  
at the Academy of Fine Arts in Venice.

**Story behind the Art:**

Strolling around a flower shop, the  
designer was struck by the idea of how  
denim and plants could interact. The  
green flora of the Japanese ornamental  
Kokedama plant and colorful blue fabric  
were harmoniously combined.



# CORPORATE VALUES

We pursue our operations cognizant of our responsibilities to our planet and humankind. We adopt the principle of sustainability in our business models and processes.

## PASSIONATE ABOUT DENIM

Believing in denim's distinctiveness in the textile sector, we weave the dreams of the denim world with a dynamic spirit.

## STRONG INNOVATIVE POWER

We know that constant investment into innovation in R&D processes and the products generated are a pre-condition of meeting the demands of our customers.

As Çalık Denim, our objective is to become "the first that comes to mind" in the denim world.

## CUSTOMER-ORIENTED

We regard customer needs as the most essential source of motivation.

We respond to customer needs in the most suitable way, thanks to our wide product range, high quality standards in customer services, and our effective time and cost management activities.

## ADOPTING SUSTAINABILITY

We pursue our operations cognizant of our responsibilities to our planet and humankind. We adopt the principle of sustainability in our business models and processes.

## ADDING VALUE TO STAKEHOLDERS

We consider our employees, suppliers and customers to be our building blocks, and therefore support open and free sharing of opinions.

We create value for our employees through our developmental activities, and for our stakeholders through unique projects.

## HONEST, TRANSPARENT AND CONSISTENT

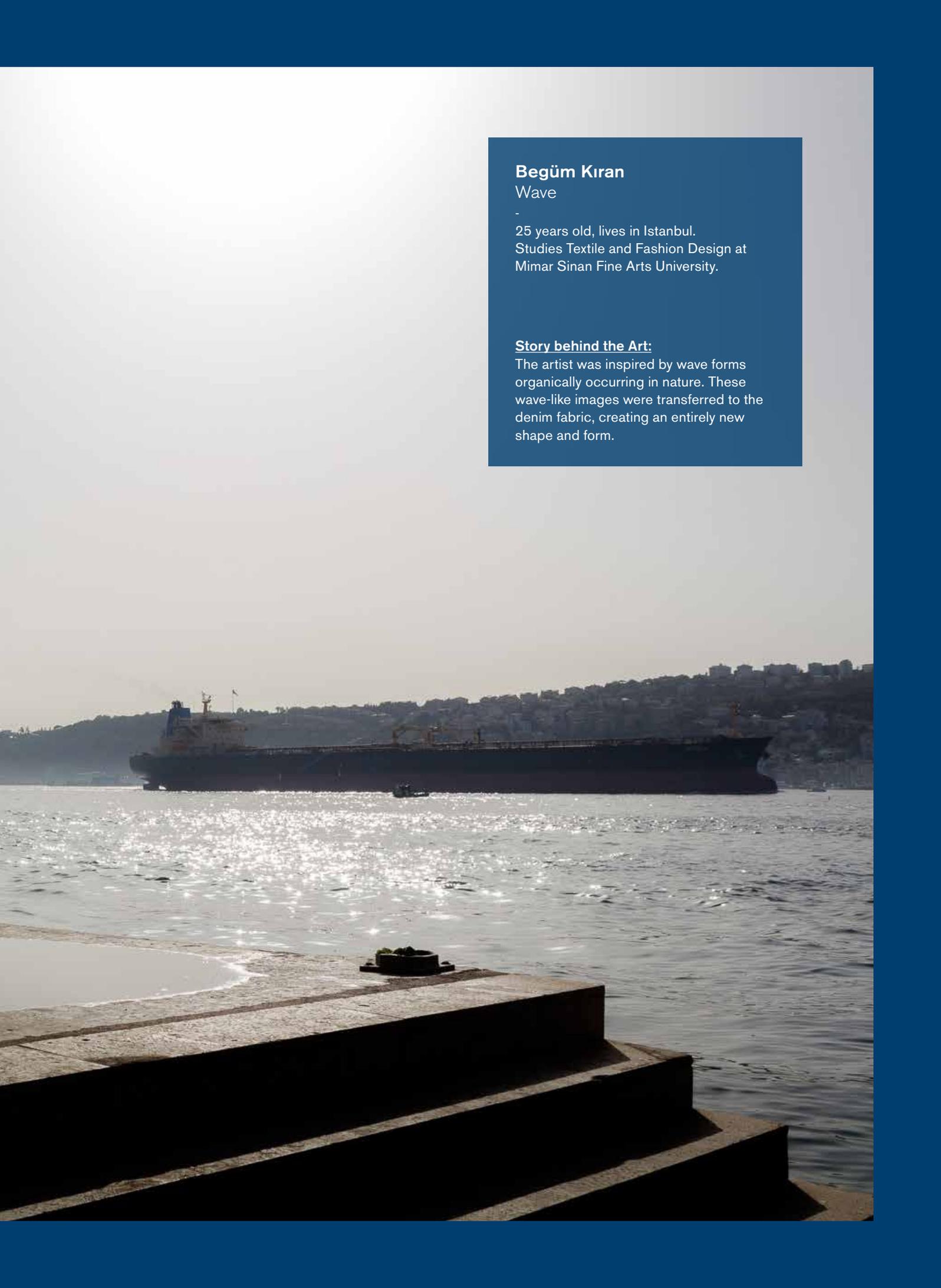
We are honest, transparent and consistent in all our relations and business processes.

## RESPECTFUL OF RIGHTS AND OPINIONS

Fair and respectful of ethical values, our Company adheres to the equality of opportunities, encourages diversity and open communication at all levels, and recognizes that every single opinion is invaluable.





A large cargo ship is seen on the water, with a cityscape visible in the background. The sun is low in the sky, creating a shimmering reflection on the water's surface. In the foreground, there are concrete steps leading down to the water.

## Begüm Kıran

### Wave

-  
25 years old, lives in Istanbul.  
Studies Textile and Fashion Design at  
Mimar Sinan Fine Arts University.

#### **Story behind the Art:**

The artist was inspired by wave forms organically occurring in nature. These wave-like images were transferred to the denim fabric, creating an entirely new shape and form.

# CERTIFICATIONS

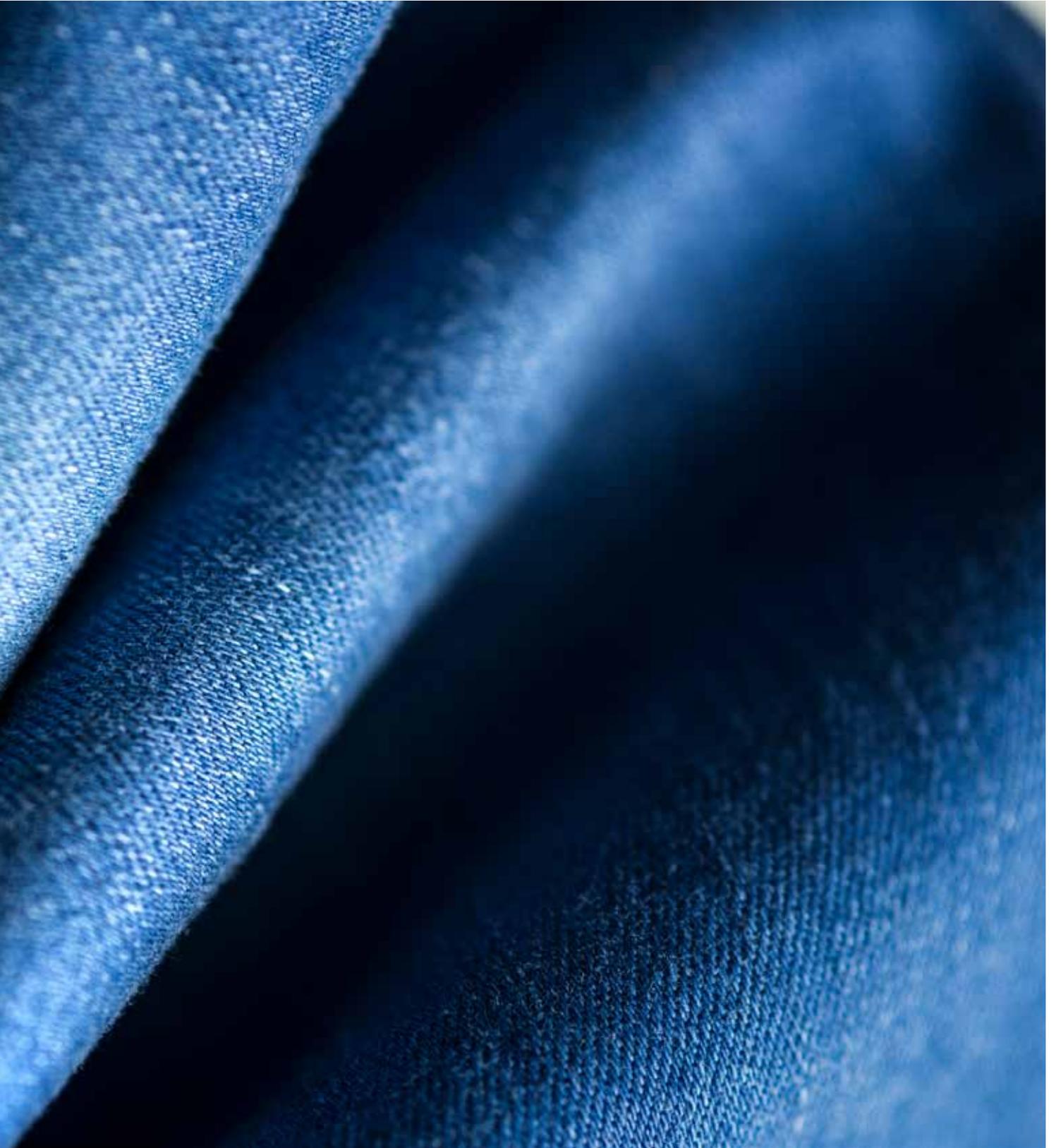
Çalık Denim was accepted into the Turquality National Brand-Building Program Denim, corroborating the Company's environmentally sensitive operations.

Çalık Denim prioritizes occupational health and product quality in all operations and aims to provide products and services to international standards at all times. All certifications granted to the Company confirm our determination and competence in this area.

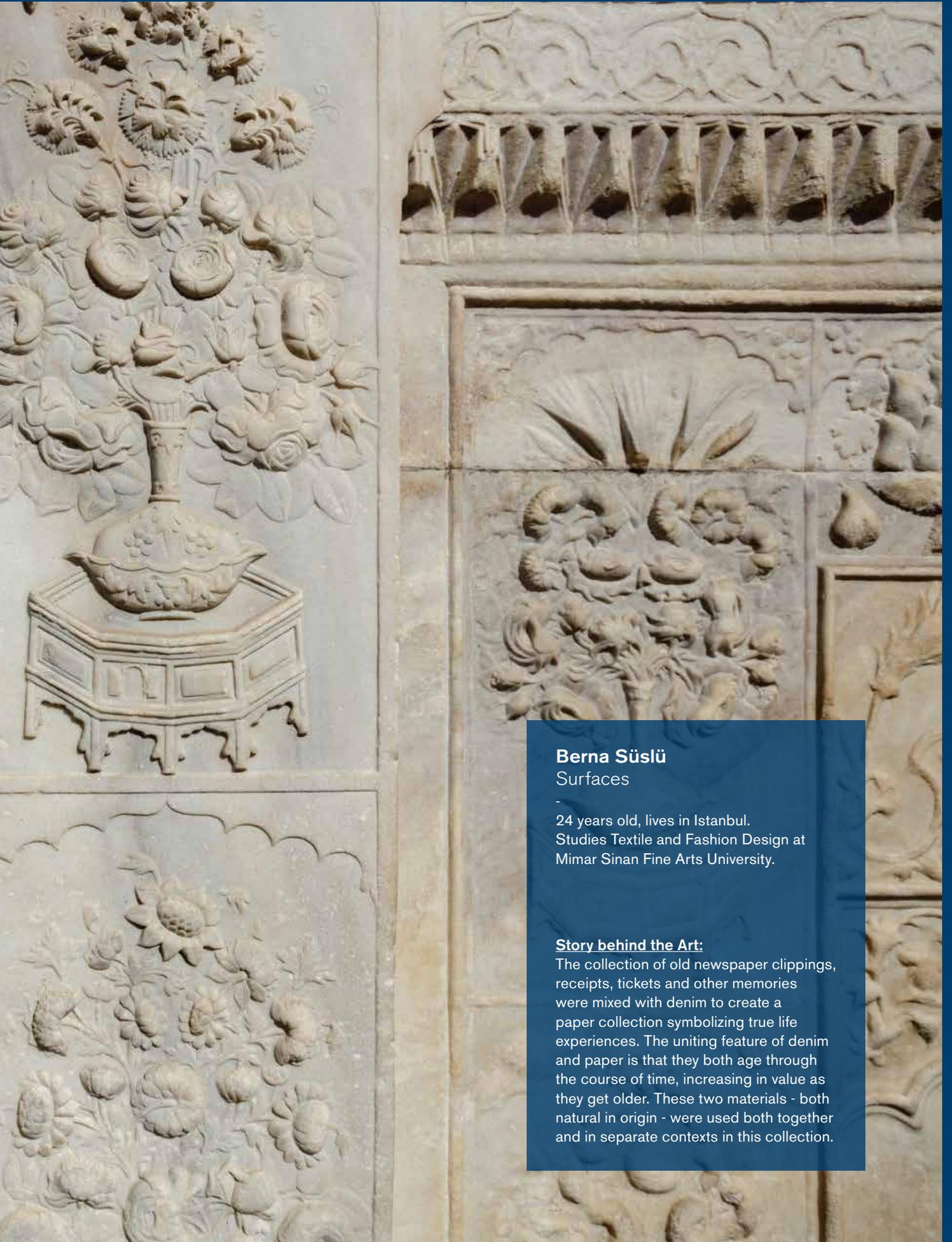
Çalık Denim has obtained the following certifications:

- ISO 9001 Quality Management Certification
- ISO 14001 Environmental Management Certification
- OHSAS 18001 Occupational Health and Safety
- ISO 50001 Energy Management System
- ISO 27001 - Information Security Management System
- BCI (Better Cotton Initiative)
- Bluesign
- GOTS
- OCS
- OEKO-TEX STANDARD 100
- GRS
- Turquality - Turquality National Brand-Building Program









## Berna Süslü

### Surfaces

24 years old, lives in Istanbul.  
Studies Textile and Fashion Design at  
Mimar Sinan Fine Arts University.

#### **Story behind the Art:**

The collection of old newspaper clippings, receipts, tickets and other memories were mixed with denim to create a paper collection symbolizing true life experiences. The uniting feature of denim and paper is that they both age through the course of time, increasing in value as they get older. These two materials - both natural in origin - were used both together and in separate contexts in this collection.

# MESSAGE FROM THE CHAIRMAN

Despite facing many challenges in 2017, the Turkish economy maintained strong growth thanks to the successful implementation of policies to stimulate domestic demand and investments.

Esteemed Business Partners and Valued Employees,

The year 2017 was marked by global uncertainties and geopolitical risks as the financial markets closely watched the decisions of the major central banks. Despite ongoing volatility worldwide, we saw some recovery and a revival in the global economy. For the first time in a very long while, the IMF revised upward its economic growth forecasts, with global growth projected at 3.7% in 2017.

In October, the Federal Reserve (FED) began unwinding its balance sheet and signaled more interest rate hikes to come. In an unsurprising move, the FED raised its policy rate by 25 basis points at its December meeting while revising its growth forecasts upward for the next three years. The FED went on to raise interest rates three times in 2017. Additionally, the US Senate passed a bill to lower the corporate tax rate from 35% to 21%.

Meanwhile, Europe's economy recorded a remarkable rebound – a highly important development for Turkey. Economic growth in the Eurozone and the appreciation of the euro amid global uncertainties were impressive developments, especially in a volatile global and geopolitical environment. As a result of the European Central Bank's (ECB) accommodative monetary policy, Europe's economy recorded its fastest growth rate in seven years.

## OIL PRICES EXCEEDED US\$ 60 PER BARREL.

Due to the expectation that OPEC would continue output curbs coupled with the instability in the Middle East, oil prices started climbing towards the end of the year, with the price of Brent crude oil rising 21% year-on-year to reach US\$ 67 at the end of 2017. Considering that China's economy performed below expectations and that OPEC announced its decision to extend production cuts until year-end 2018 - rather than March, as originally planned - the price of oil is expected to remain at about US\$ 60 per barrel in the coming period.

## 2017 WAS A PRODUCTIVE AND SUCCESSFUL YEAR FOR TURKEY'S ECONOMY.

Despite facing numerous challenges in 2017, the Turkish economy maintained strong growth due to the successful implementation of policies to stimulate domestic demand and investments. Turkey's economy expanded 11.1% year-on-year in third quarter 2017 to become the fastest growing among the G20 countries. Tourism revenues, in particular, contributed to financing Turkey's current account deficit.

In addition to tourism revenue, portfolio investments also played an important role in financing the current account deficit. Portfolio investment inflows into Turkey totaled US\$ 24.3 billion in 2017.

On the foreign trade front, higher exports made a positive contribution to economic growth. In particular, increased economic activity in the Eurozone boosted Turkey's export performance.

After a period of considerable depreciation against major currencies at year-end 2016 and early 2017, the Turkish lira remained stable during the year, thanks to responsive measures taken along with the CBRT's funding policies.

## AN OVERVIEW OF THE ÇALIK GROUP

Responding to strong demand from investors, Çalık Enerji increased the size of its bond issuance from TL 100 million to TL 150 million and completed the issuance in early 2017. Our Company was awarded two new projects in 2017: the Navoi-2 Combined Heat and Power Plant and the Turakurgan Power Plant in Uzbekistan. Additionally, we completed the construction of the Al-Khums Simple Cycle Power Plant in Libya. During the year, we also commissioned the Aden Fast-Track Mobile Power Plant, our first mobile power plant contract in the Middle East and our first project in Yemen. We signed an agreement for the construction of the Tedzani-4 Hydroelectric Power Plant, which will be



the first HEPP built in Sub-Saharan Africa, and executed an agreement related to a renewable energy investment in Uzbekistan. We completed construction of our solar power plants in Erzincan, Erzurum, Çorum and Amasya (Turkey) and commenced electricity production. In 2017, our total oil production reached 360,000 barrels. Çalık Enerji ranked 110<sup>th</sup> on the Top 250 International Contractors list compiled by ENR and based on year-end 2016 data. Furthermore, Çalık Enerji earned first place among Turkish contractors in the construction of power systems and fossil fuel power plants, as well as in power transmission and distribution.

In 2017, Gap İnşaat opened the Endocrinology Hospital, which serves as an Endocrinology and Surgery Center housed in two buildings in Ashgabat, Turkmenistan. In addition, Gap İnşaat reached the final stage in construction of the Turkmenbashi International Seaport project, which will be the largest port on the Caspian Sea and a key logistics hub on the ancient 'Silk Road'. Currently, we are building the Garaboğaz Fertilizer Factory in Turkmenistan, together with Mitsubishi Heavy Industries. We are planning to commission the Garaboğaz Factory, which will be the largest chemicals facility in Central Asia, in 2018. During the reporting year, we realized the sale of the Metropol Istanbul Project for about TL 1.3 billion. The Metropol Istanbul Project is a part of the Istanbul International Financial Center, in which Gap İnşaat participates as a contractor. According to the results of Turkey's Top 500 Service Exporters survey, conducted by

the Turkish Exporters' Assembly (TİM) based on 2016 data, GAP İnşaat ranked fourth in the construction industry and 10<sup>th</sup> overall in Turkey with US\$ 321 million. Our Company ranked 92<sup>nd</sup> on ENR's list.

Last year, GAP İnşaat was awarded the construction of the Sulfide Facilities at Çöpler Gold Mine, which is owned by our subsidiary Lidya Madencilik. Construction entered the final stage in 2017; the facilities are expected to start operations in 2018. Meanwhile, the feasibility study on Gediktepe is almost complete, with construction work scheduled to begin in 2018. We continue to explore new fields abroad.

Çalık Gayrimenkul has nearly completed the construction of the first phase of the Taksim 360 Urban Renewal Project in Istanbul's historic Tarlabası neighborhood.

### **WE CELEBRATED THE 30TH ANNIVERSARY OF ÇALIK DENIM.**

In October 2017, we celebrated the 30th anniversary of Çalık Denim together with you, our valued stakeholders. We opened the Denim Loves Art exhibition, featuring the works of 30 young international designers inspired by the use of denim in various cities, first in Istanbul, then Amsterdam and Los Angeles. We also initiated a digital transformation at Çalık Denim. Under this effort, we formulated the roadmap for 2018 in line with Industry 4.0. We plan to expand the digital transformation, which was initially started in

# MESSAGE FROM THE CHAIRMAN

## Çalık Gayrimenkul nearly completed the construction of the first phase of the Taksim 360 Urban Renewal Project in Istanbul's historic Tarlabaşı neighborhood.

manufacturing, data collection and analysis, and the shipping operations, to the entire organization. The goal is to conduct our business activities in an uninterrupted, highly efficient and flexible manner. Additionally, we are working to expand our annual production capacity from 42 million meters in 2017 to 46 million meters in 2018.

Gap Pazarlama, which engages in international textile trading and supply, continued its business operations successfully during the year. Gap Pazarlama received the 'Bronze' award at the Stars of Exports awards ceremony organized by the Istanbul Textile and Raw Materials Exporters Association (ITHİB).

In 2017, Aktif Bank recorded significant improvements in a number of key indicators, such as balance sheet, profitability and growth. Our Bank's profits increased 1.6-fold year-on-year in the third quarter. Aktif Bank also entered into a 50/50 partnership with Halk Enerji and established Aktif Halk Enerji Yatırımları and Halk Enerji İnşaat to invest in licensed and unlicensed solar power plant projects.

### **WE STAND OUT WITH OUR INNOVATIVE PRACTICES IN THE BANKING INDUSTRY.**

Aktif Bank's subsidiaries E-Kent and UPT continued to introduce innovative practices during the year. UPT ranked fourth in the "Banking and Other Financial Services" category on Turkey's Top 500 Service Exporters list. More than 150,000 Passolig users entered stadiums by scanning their mobile phones loaded with the multifunctional mobile application. Meanwhile, E-Kent performed one billion urban transportation transactions annually.

In 2017, Banka Kombetare Tregtare (BKT), which operates in the Balkan region, was named 'Bank of the Year' in Albania by Euromoney, for the sixth consecutive year; by The Banker for the eighth consecutive year; and by EMEA Finance for the seventh consecutive year. JCR Eurasia affirmed BKT's Long Term National Credit Rating as 'AAA (Alb)/Stable' and its Long Term International Foreign and Local Currency ratings as 'BBB-/Stable'. BKT became a leader in mobile innovation in a very short time, thanks to its capital investments in digital channels, especially mobile banking. The Bank achieved end-to-end process automation and digitization, in credit cards, mobile wallet and treasury transactions, among other areas.

ALBtelecom, our telecommunications company in Albania, continued to deliver customer-focused, fast and high-quality services. In 2017, ALBtelecom's Business Communication Management solution, which the Company is implementing through the SAP program, won the 'Gold' award at the SAP Quality Awards.

### **WE SERVE 7 MILLION PEOPLE IN THE ELECTRICITY MARKET IN TURKEY AND ABROAD.**

In 2017, our electricity distribution company, YEDAŞ, which is based in Samsun, integrated the Smart Meter Circuitry and Low Voltage Grid Monitoring System with its existing Meter Reading System. At present, the Company is capable of monitoring 150,000 points in real time. Under the Mobile Labor Management initiative, our field staff began serving customers with tablet computers. The system enables rapid intervention in case of operational failures or outages, and dispatches the nearest teams to those locations.

KEDS, our joint venture company with Limak Holding, continued its investments in Kosovo in order to establish a modern and reliable network for all citizens. Aras EDAŞ, our joint venture company with Kiler Holding, was named among the most successful electricity companies according to the results of a Customer Satisfaction Survey conducted by the Turkish Ministry of Energy. The top four cities with the highest customer satisfaction scores are located in Aras EDAŞ's operating region.

**OUR GOAL FOR 2018 IS DIGITAL TRANSFORMATION.**

At Çalık Group, we aim to make further advances in innovation and entrepreneurship, use digital tools more effectively, and stay abreast of new developments, in line with our mission to add value to people's lives.

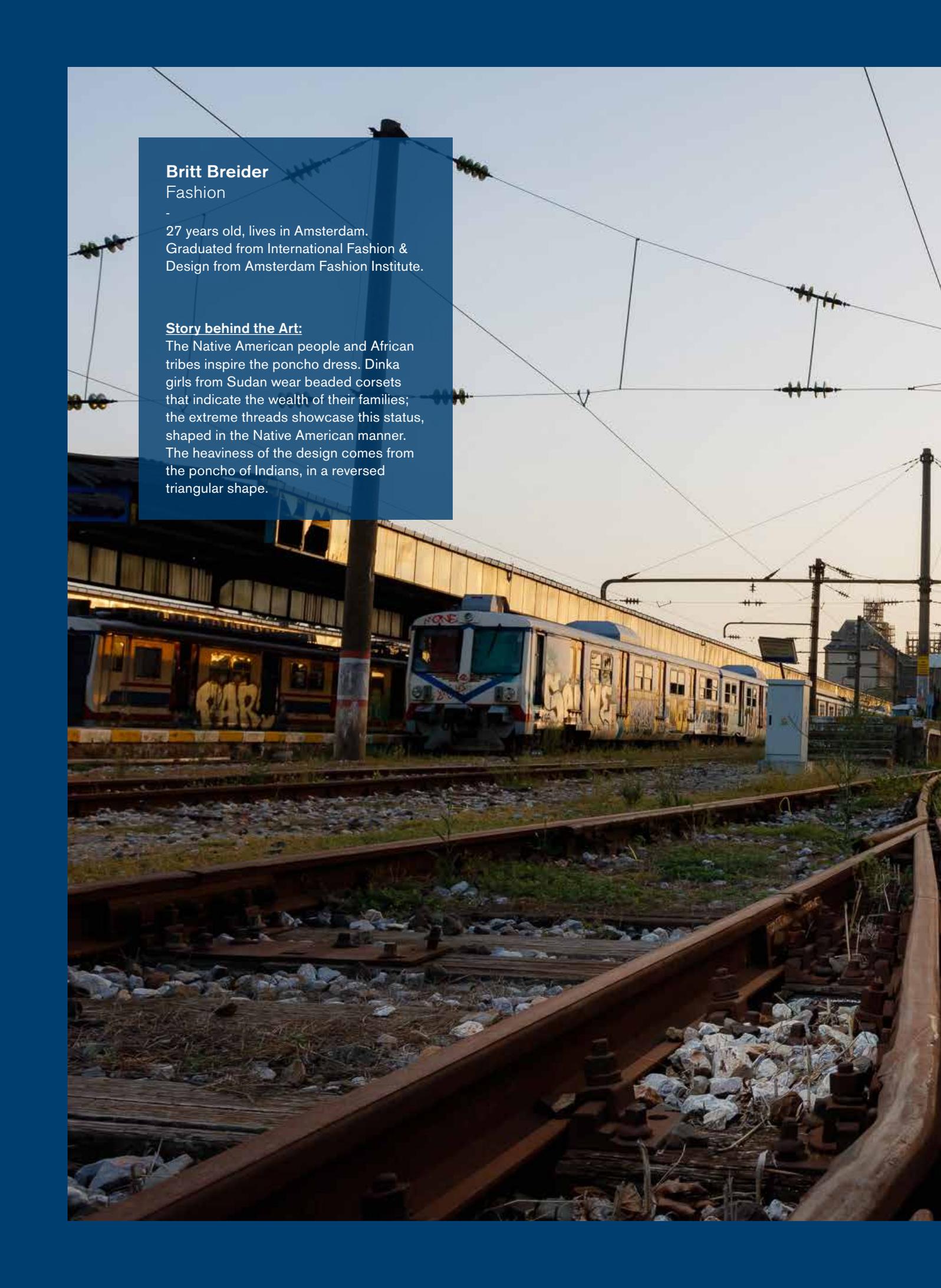
Managing digital transformation requires strong leadership and a visionary approach. Digital transformation is among the top priorities of all our companies around the world. At Çalık Group, we are investing in digitalization and taking steps to change our way of doing business with the use of next generation technologies. We see digitalization as an important opportunity to remain competitive in a constantly evolving world and to make our companies leaders in their respective industries. In 2017, we established Çalık Dijital in partnership with GE. Çalık Dijital will focus on digital transformation efforts at our companies. Over the next three years, we aim to develop sustainable projects in cyber security and artificial intelligence for the global market. We evaluate our performance and improve our processes to adapt to rapid changes, ensuring that Turkey and the countries where we operate play a pivotal role in the new industrial revolution. Our objective is to effectively compete in Industry 4.0 by using the latest technologies so that we can further improve our companies and contribute to our country's development.

I would like to thank all our stakeholders for their unwavering support in our successful operations in 2017, all our colleagues for their selfless efforts, and all our business partners and customers. I hope that together we will create more added values for Turkey in the coming year.

Respectfully yours,

**Ahmet Çalık**  
Chairman of the Board of Directors



A photograph of a train at a station. The train is white with blue and red accents and is stopped on the tracks. The station platform is visible in the background. The sky is a pale blue, suggesting dusk or dawn. The foreground shows the tracks and some gravel. A blue semi-transparent box is overlaid on the left side of the image, containing text.

## Britt Breider

Fashion

27 years old, lives in Amsterdam.  
Graduated from International Fashion &  
Design from Amsterdam Fashion Institute.

### **Story behind the Art:**

The Native American people and African tribes inspire the poncho dress. Dinka girls from Sudan wear beaded corsets that indicate the wealth of their families; the extreme threads showcase this status, shaped in the Native American manner. The heaviness of the design comes from the poncho of Indians, in a reversed triangular shape.



## BOARD OF DIRECTORS



**Ahmet Çalık**  
Chairman of the Board of Directors

As a member of a family actively involved in the textile industry since 1930, Ahmet Çalık began his first business initiative in this sector in 1981, followed by investments in the energy, telecoms, mining, textile, telecoms and finance sectors. Thus, the foundation was laid for Çalık Holding, one of the leading companies in Turkey and the region.

Ahmet Çalık made the first large private sector industrial investment in Eastern Anatolia in the second half of the 1980s, founding Gap Güneydoğu Tekstil in Malatya. Today, this company is among the world's top ten premium denim manufacturers. After the Turkic Republics gained their independence in the 1990s, Mr. Çalık launched commercial enterprises in these countries and became one of the first foreign businessmen to invest in Turkmenistan, setting up textile factories there.

In the latter half of the 1990s, Mr. Çalık restructured Gap İnşaat and geared up its business development efforts to focus on projects generating value for society-at-large. Specializing in superstructure, infrastructure, industry and energy plants, healthcare facilities, real estate development, and urban transformation projects in challenging regions, Gap İnşaat has implemented more than 100 major projects during its history. The Company has also assumed construction of the Turkmenbashi International Seaport, which is designed to boost Turkmenistan's logistical importance as a link between Europe and Asia. Meanwhile, Gap İnşaat's real estate sector subsidiary, Çalık Gayrimenkul, has launched the Tarlaş 360 project, which received the first prize in the "Urban Transformation" category at Europe's most renowned real estate award event, the European Property Awards, in 2013.

Mr. Çalık first entered the energy industry, a sector of critical importance today, in the second half of the 1990s, and founded Çalık Enerji, which currently operates in two business areas: energy systems and oil and gas. Recently, the Company signed contracts for seven power plants with a total capacity of 1,500 MW in Central Asia. Having become Georgia's largest EPC contractor with the Gardabani project, Çalık Enerji also completed two power plants with a total capacity of 2,000 MW in Iraq. Çalık Enerji's Turkey portfolio includes wind, coal-fired, natural gas and hydroelectric power plants with an aggregate capacity of close to 2,000 MW. In addition, Çalık Enerji and Gap İnşaat were featured in the Top 250 International Contractors list published annually by the esteemed Engineering News Record.

Çalık Holding acquired YEDAŞ in 2010, the Kosovo Energy Distribution and Supply Company (KEDS) in 2012, and ARAS EDAŞ in 2013, all through privatization tenders, thus making a strong entry into the energy distribution sector.

Thanks to an expanding business volume, Mr. Çalık entered into the financial services industry in 1999, setting up Aktif Bank in Turkey and acquiring BKT, which became one of the two largest banks in Albania under the Group's management. To date, Aktif Bank has received a total of 73 awards, including the 'World's Most Innovative Bank'. Aktif Bank was given the grand prize for its Aktif Nokta project in the "Physical Distribution Channels" category during the event held by the European Financial Management and Marketing Association (EFMA). BKT was recognized for the fifth time in 2014 as 'The Best Bank' by The Banker, one of the most prestigious magazines covering international financial markets. Aktif Bank's operations are mainly focused on Retail Banking, Corporate Banking, Investment Banking, and Urban Banking. The Bank offers customers a wide range of products and services, such as money transfers, insurance, card products, and comprehensive kiosk solutions.

One of the most prominent Turkish investors in the Balkans, Mr. Çalık acquired Albania's largest fixed line operator and Internet service provider ALBtelecom in 2007, thus entering the telecoms business. In 2008, Çalık Holding entered the GSM market in Albania by establishing Eagle Mobile.

Mr. Çalık set up Lidya Madencilik in 2010 in order to enter the mining business and capitalize on Turkey's underground natural resources. The Company's mine site portfolio makes it one of the leading mining enterprises in Turkey. As a joint venture between Lidya Madencilik and Alacer Gold, Anagold is the first large international collaboration in the Turkish mining industry.

With a vision to create significant added value and enrich the nations in which the Group companies operate, Mr. Çalık established Çalık Holding in 1997 to bring all the companies together under a single banner. Today, the Holding conducts business operations with 37 thousand employees across 22 countries, in six main areas. According to the Emerging Markets Global Player 2010 report, the Holding is one of the five largest Turkish groups in terms of overseas investments.

With a business model focused on the region near Turkey - home to 60% of the world's entire hydrocarbon (oil and gas) reserves on one end and wealthy countries with ample financial resources on the other - the Holding reported assets of US\$ 10 billion.

### **BUSINESS LINES**

Energy  
Construction  
Mining  
Textile  
Telecom  
Finance

### **SIGNIFICANT INVESTMENTS**

Ortadoğu Tekstil, 1981  
Çalık Denim, 1987  
Gap Pazarlama, 1994  
Gap İnşaat, 1996  
Çalık Holding, 1997  
Çalık Enerji, 1998  
Aktif Bank, 1999  
TTK, Turkmenistan Textile Investment, 2000  
EKent, 2002  
Bursagaz, 2004  
BKT, 2006  
Kayserigaz, 2007  
ALBtelecom and Eagle Mobile, 2007  
Lidya Madencilik, 2010  
Yeşilirmak Elektrik Dağıtım (YEDAŞ), 2010  
Çalık Gayrimenkul, 2010  
Kosova Elektrik Dağıtım (KEDS), 2012  
Aras Elektrik Dağıtım (ARAS EDAŞ), 2013  
Strategy and equity partnership between Çalık Enerji and Mitsubishi Corporation, 2015  
Çalık Dijital, 2017

### **AWARDS AND HONORS**

Order of State of Turkmenistan, 1997  
Mahdum Guli Award, 1997  
Entrepreneur of the Year Award, Para Magazine, 1997

Best Industrial Enterprise of the Year, GESIAD, 1997  
İpek Yolu Foundation Service Award, 1998  
Turkmenistan 'Gayrat' Medal, 1999  
Order of Merit of the Turkish Republic, 1999  
Turkmenistan Golden Century Medal, 2001  
Order of Merit of the Ministry of Foreign Affairs of the Turkish Republic, 2002  
National Productivity Center Businessman of the Year Award, 2004  
Faculty of Business Administration, Istanbul University, Dünya Newspaper National Business Manager of the Year, 2005  
Order of Merit of Turkish Grand National Assembly, 2006  
Dünya Newspaper National Business Manager of the Year, 2006  
Turgut Özal Economy Award, 2008  
Turkey in Europe-Franco Nobili, 2010  
Turkish Red Crescent, Gold Medal Certificate, 2012  
Matsumoto Dental University, Japan, Honorary PhD Title, 2014  
Ellis Island Medal of Honor, 2014  
Tiran University, Honorary PhD Title, 2014  
Turkmenistan 'Garaşsyz, Baky, Bitarap Türkmenistan' Medal Certificate, 2015  
Kindai University, Honorary PhD Title, 2016

### **SOCIAL RESPONSIBILITY PROJECTS**

Malatya Educational Foundation  
Mahmut Çalık Education Complex  
Malatya Hasan Çalık Hospital  
Ankara Oncology Hospital  
Significant social aid projects in Van, Pakistan and Somali  
'İftarımızı Anadolu'da Açıyoruz' Activity  
'El Ele Elden Eve' Aid Campaign  
Restoration of Atatürk Köşkü, Yalova  
'İlk İşim Girişim' Competition  
Renovations at the Geomatics Department, Faculty of Civil Engineering at Istanbul Technical University  
Renovation of the Precious Metals Laboratory at İTÜ Mining Faculty

### **MISSIONS AT THE STATE LEVEL**

Deputy Minister of Turkmenistan Textile and Industrial Ministry, 1997-2004  
Bursa Honorary Consulate of Republic of Kazakhstan, 2012

### **PERSONAL**

1958, Malatya  
Married with four children

## BOARD OF DIRECTORS



**Mehmet Ertuğrul Gürler**  
Deputy Chairman

Mehmet Ertuğrul Gürler was born in 1958 and graduated from Marmara University's School of Business Administration. In a professional career spanning 37 years, Mr. Gürler has served as Deputy Refinery Manager at BP Overseas Refining Company Ltd. from 1983 to 1987, and in several positions as Financial Director and Board Member from 1987 to 1994 for Dow Türkiye A.Ş. Having served at Total Oil Türkiye A.Ş. as Deputy General Manager between the years of 1994 and 1998, Mr. Gürler joined Çalık Holding A.Ş. as General Manager in 1998. Mr. Gürler currently serves as Deputy Chairman of Çalık Holding, Banka Kombetare Tregtare, ALBtelecom, Çalık Denim, Başak Management Systems, Cetel Telekom, Çalık Financial Services, Çalık Air, Irmak Management Systems, and Kentsel Dönüşüm İnşaat. He is also a Board Member at YEPAŞ, and Board Member at Aktif Bank, Gap İnşaat, Gap Pazarlama, Çalık Emlak ve Gayrimenkul, Çalık İnşaat, Doğu Akdeniz Petro Kimya companies.



**Ender Hıdıroğlu**  
Advisor to the Chairman

Ender Hıdıroğlu graduated from Middle East Technical University's Department of Mechanical Engineering, and held various positions at a range of companies, including GATEKS, UPISAS, SANKO, SASA, YURTAS, Paktaş and ISKO. After joining Çalık Holding in 1992, Mr. Hıdıroğlu worked at Gap Pazarlama as CEO for three years. He continued his professional career as CEO, Project Manager and Board Member at Gap İnşaat for 10 years. Mr. Hıdıroğlu has held senior management and Board Member positions at various Çalık Holding companies; he currently serves as Adviser to the Chairman of Çalık Holding.



## MESSAGE FROM THE GENERAL MANAGER

Although 2017 was a stagnant period for the sector as a whole, Çalık Denim increased its sales by 20% to over 40 million meters, and solidified its position in the sector.

In 2017, major issues for the textile sector included risks arising from a volatile exchange rate, low-cost manufacturers in the Far East, free trade agreements signed with the European Union, regional political risks, the ongoing Brexit process and, also, market demand for innovative and creative products in the sector. While interest increased worldwide for value-added Turkish denim fabric and garments in 2017, the denim sector experienced a stagnant period in both the domestic and international markets.

The continued production increase in the Turkish textile sector through 2017 resulted in dynamism in the domestic market, as well as a rise in exports due to a recovering Russian market. On the other hand, observations indicate that the Iranian market, recently emerging as an increasingly important market for the textile sector, has strong export potential, particularly in the baby and children's clothing segments.

Innovation and sustainability issues, rising in significance across all sectors, maintained their importance in the textile sector in 2017; indicators strongly suggest that textile companies will focus even more closely on these two issues in the coming years.

Although 2017 was a stagnant period for the sector as a whole, Çalık Denim increased its sales by 20% to over 40 million meters, and solidified its position in the sector.



The Company's long-running R&D, innovation and human resources investments are the key factors in Çalık Denim's success: in 2017, the Company realized investments worth US\$ 27 million. Çalık Denim continues to contribute to the Turkish textile sector and the Turkish economy with investments that exceeded US\$ 130 million between the years 2010-2017, and a nearly 21% increase in employment levels.

Best regards,

**Hamit Yenici**  
General Manager







## Camilla Bacchin

### Suspended Nest

-  
18 years old, lives in Italy.  
Studies Industrial Design at Michele  
Fanoli State Art Institute.

#### Story behind the Art:

The art is inspired by the beehive, where bees nest as well as manufacture honey and comb. The designer imagined a resting and meditation area for humans modeled on the nest of a bee.

# SENIOR MANAGEMENT

## **Hamit Yenici**

Board Member, General Manager

Born in 1969 in Bursa, Hamit Yenici graduated from the Department of Textile Engineering at Uludağ University. Mr. Yenici started his professional career at İSKO in 1990 as Weaving Operations Engineer and ultimately served as Product Development Manager. Having joined Çalık Holding in 2014, Mr. Yenici was appointed as the General Manager. He has served as a Member of the Board of Directors and as the General Manager of the Company since 2015.

## **Fatih Doğan**

Deputy General Manager

Fatih Doğan was born in 1976 and graduated from the Department of Economics, Faculty of Economics and Administrative Sciences at İnönü University, where he also received a Master's degree in Economics. Continuing his academic career following his graduation, Mr. Doğan started his professional career as Accounting Specialist at Çalık Denim in 2000. After holding various senior positions at Gap Türkmen and Çalık Alexandria, Mr. Doğan was appointed as Director for Financial Affairs at Çalık Denim in 2009. He has served as Deputy General Manager at Çalık Denim since June 2016.

## **Ahmet Serhat Karaduman**

Factory and R&D Director

Ahmet Serhat Karaduman was born in 1972 in Muş and graduated from the Department of Mechanical Engineering at Selçuk University. In June 2016, he completed his education at Çukurova University's Faculty of Management Administration and Organization Department. He started his professional career in 1996 as Weaving Manager at Çalık Denim and held various posts at the Company until 2003. Between 2004 and 2013, Mr. Karaduman served as Weaving/Indigo/Product Development Manager at Çalık Turkmenistan's facilities. Appointed in 2013 as R&D Manager, Mr. Karaduman became Factory Director in 2014, and has served as the Factory and R&D Director at Çalık Denim since 2015.

## **Aysun Şengür**

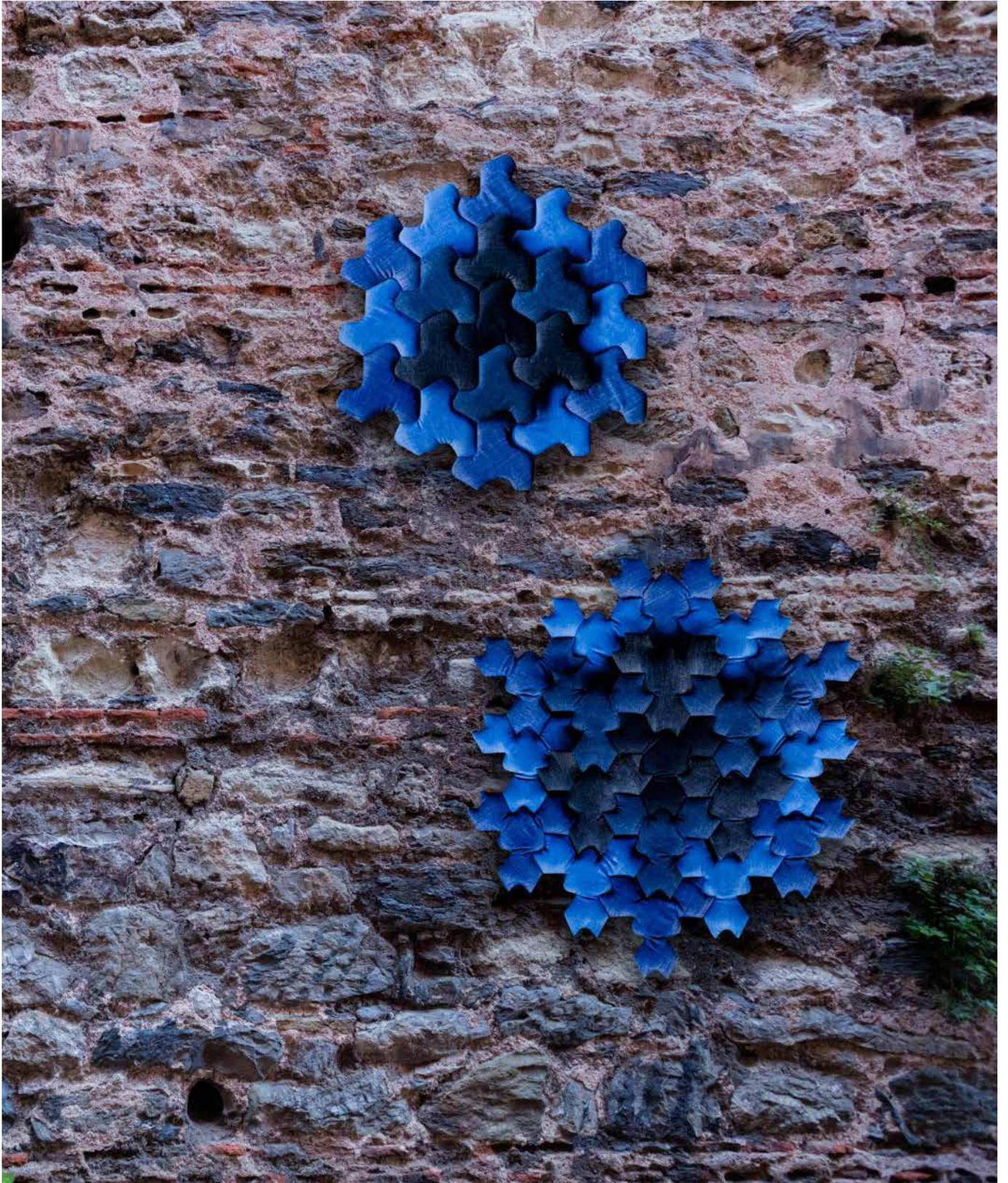
Director for Financial Affairs

Born in Istanbul, Aysun Şengür graduated from the Department of Mathematics, Faculty of Science at Istanbul University. Ms. Şengür started her professional career at Yalova Elyaf ve İplik A.Ş. in 1997 and joined Çalık Denim A.Ş in 2001. After holding various posts at Çalık Denim, Ms. Şengür currently serves as Director of Financial Affairs.

## **Kubilayhan Kalaycı**

Sales Director

Kubilayhan Kalaycı, born in Istanbul, completed his university education as a Leather Technologies Engineer at University of Northampton, Nene College, in the United Kingdom. Mr. Kalaycı started his professional career at Erlüks Deri Sanayii in 1991. In 2010, he joined the Çalık Denim sales department, serving in various positions. Mr. Kalaycı currently serves as the Sales Director of Çalık Denim.



## PRODUCTION

Çalık Denim, which has completely transformed the perception of ecological textiles in the sector, continues to design environmentally friendly products that are bright, vibrant and easy to shape.

**442** Thousand m<sup>2</sup>

Total Production Area

**44** Million Meters

Finished Fabric Production Capacity





## PRODUCTION

Through planned and budgeted investments, Çalık Denim aims to expand its current annual production of 44 million meters to 60 million meters by 2020.

Maintaining its competitive edge in the sector with sustainable production practices, Çalık Denim ranks among the world's leading denim manufacturers. Çalık Denim continuously employs new technologies to enhance its integrated facility in Malatya, which has a total area of 442,074 m<sup>2</sup>, 194,080 m<sup>2</sup> of which is covered space.

Through planned and budgeted investments, Çalık Denim aims to expand its current annual production of 44 million meters to 60 million meters by 2020.

### **INNOVATIVE AND ENVIRONMENTALLY FRIENDLY CONCEPTS**

Çalık Denim underscores the importance it attaches to brand dynamism and innovation with 'Fly Jean' and 'Smart Stretch' - concepts that have sent ripples of excitement across the sector.

The Fly Jean concept yields fabrics that are in perfect harmony with the 'athleisure' style trending in recent years. Ultra-lightness, high elasticity, exceptional softness, and shape retention are some of the prominent features of Fly Jean products, which also prevent seam slippage and creases, and compact enough to fit inside an umbrella cover.

The Smart Stretch concept stands out as a groundbreaking product in the stretch fabric category. Smart Stretch fabrics shape the body without compromising comfort, focusing on the necessary spots while offering comfort in other areas. Shaping with Smart Stretch means 'Comfortable Local Shaping'.





## **ÇALIK DENIM'S PRODUCTION JOURNEY**

### **Yarn Facilities, the Centers of Unique Production**

Thanks to its expert team, Çalık Denim has the capability to carry out the production and finishing processes of its own yarn and fabric. Çalık Denim's unique designs in yarn come to life in ring-spinning machines through multi-twist, multi-count and draw-your-slub techniques (exclusive program to make slub).

Cotton from Urfa (Turkey), the Aegean region and the USA, as well as BCI (Better Cotton Initiative) and organic cotton are the raw materials most widely used. Çalık Denim's diverse production range includes yarns with a wide variety of folds and twists, as well as straight, core-spun, dual-core yarns and twisted yarns with a range of between NE 6-30, along with open-end rotor, ring and indigo colored yarn.

### **Indigo Facilities, the Centers of Vivid Colors**

The Indigo facilities, rendered more efficient by renovation works in 2014, feature three rope dyeing and two beam dyeing lines. Warp dyeing operations offer a wide range, including indigo, reactive, pigment, sulfur, bottom and topping.

### **Weaving Facilities with a Wide Production Range**

Çalık Denim's wide product portfolio is brought to life at its weaving facilities. These facilities feature three types of looms (the Dornier, Sulzer and Picanol models) as well as standard weaves, along with more complex variations such as plain weave, scotch plaid, herringbone, piqué, skipping, double-layer, gabardine fabric and technical textures in multi-layer constructions.

### **Finishing Facilities Adding Originality to the Fabric**

Products delivered to the finishing facilities undergo three operations: pre-finishing, dyeing and finishing. Operations such as cauterization, desizing, mercerization, bleaching, dyeing, extension, sanforization, coating and calendaring optionally take place in these facilities.

# PRODUCTION

## 100% Quality Control at International Standards

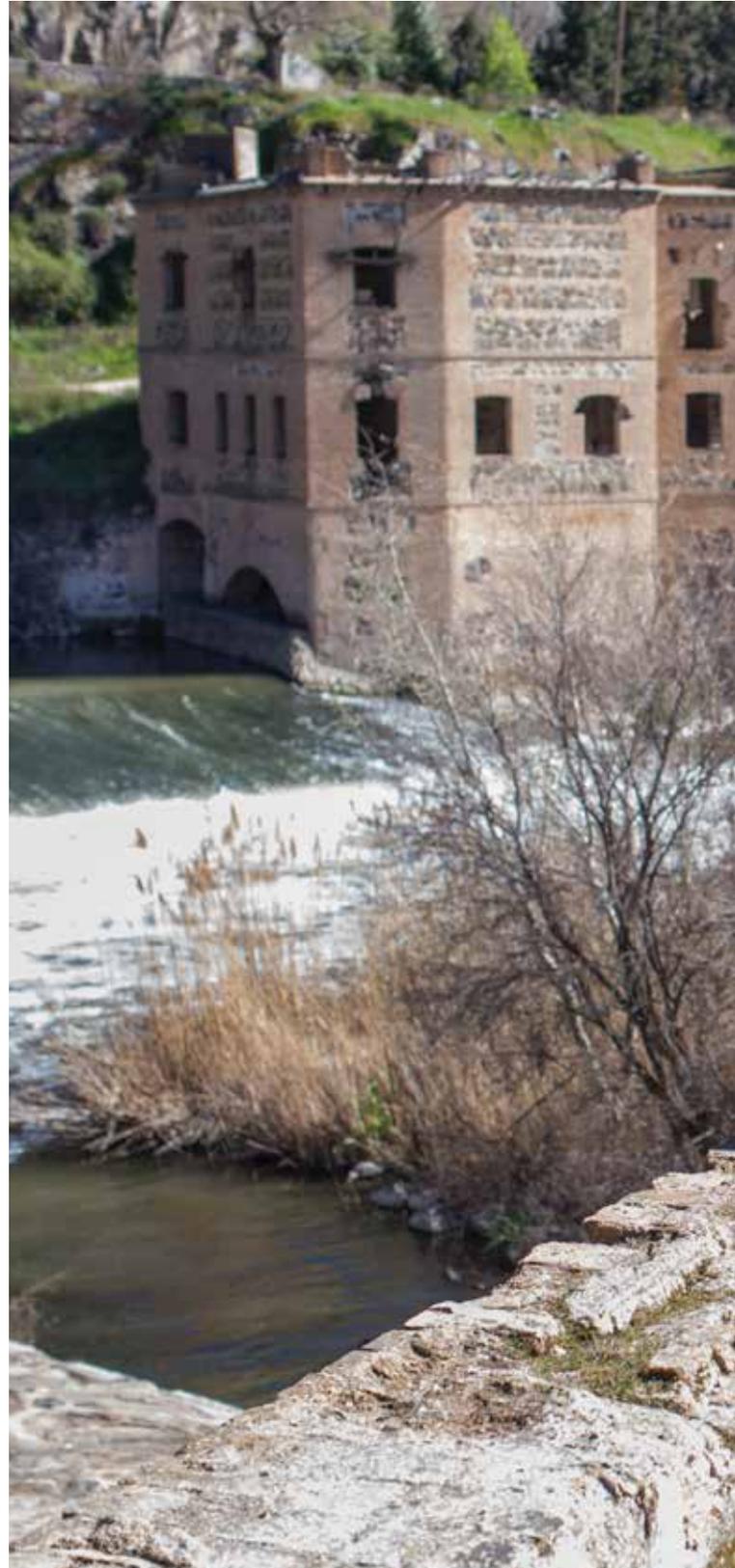
Behind Çalık Denim's international standard-quality lies the 100% quality control process that every piece of fabric undergoes.

Before gaining shipping approval under the Çalık Denim brand, products must undergo the following quality control phases:

- visual checks, scoring for any fabric deficiencies, and division into quality categories,
- washing the pieces from orders according to standard instruction or customers' instruction,
- color assessment and color classification processes, testing and controls at physical laboratories.

## Annual Production Capacity

Yarn	25,200,000 kg
Indigo Dyeing	42,000,000 m
Weaving	47,000,000 m
Finishing	44,000,000 m
Ware	44,000,000 m









### **Carina Feininger**

Relax, nothing is under control

-

26 years old, lives in Amsterdam.

Studies at the Amsterdam Fashion Institute.

#### **Story behind the Art:**

Inspiration for the art emerges from the comfort zone where people dwell in today's modern world. The art introduces a new concept of contemporary athleisure wear that merges sports style and luxury-wear. The designer has combined sharp lines and innovative construction to reinforce a deep sense of stylish comfort and deliver an unexpected edge to the double denim designs.

## SALES & MARKETING

Ranking among the world's top 10 and Turkey's top three denim fabric manufacturers, Çalık Denim holds a strong and prestigious position among the upper segment fabric manufacturers, considered the industry's 'Premier League'.

40%

The Share of Fabric Exports in Total Sales

+40

Total Number of Export Markets



FIX-FI



## SALES & MARKETING

Profound experience in the sector and customer satisfaction that exceeds expectations have made Çalık Denim a popular solution partner preferred by global brands.

Çalık Denim, one of the most important denim producers in Turkey, is a leading producer for Diesel, Topshop, Benetton, Ann Taylor, G Star, Salsa, Next, Jack Jones, H&M, VF, Inditex, Ahlers, Blue, Replay, Scotch & Soda, Calvin Klein, River Island, Hugo Boss, Gerry Weber and Zerres.

Ranking among the world's top 10 and Turkey's top three denim fabric manufacturers, Çalık Denim holds a strong and prestigious position among the upper segment fabric manufacturers, considered the 'Premier League' of the industry. With fabric sales exceeding 40 million meters in 2017, Çalık Denim receives close to 40% of its fabric revenues from direct exports; moreover, the Company sells 90% of its products to overseas brands, which is tantamount to indirect exports from Turkey. It holds a 20% market share in the fabric export market and realizes exports to over 40 countries. The Company's key export destinations include Italy, Germany, the USA, the UK, the Netherlands, France, Scandinavia, the Far East, Portugal, Tunisia, Morocco, and Colombia.

Profound experience in the sector and customer satisfaction that exceeds expectations have made Çalık Denim a popular solution partner preferred by global brands.





Some examples of Çalık Denim's cooperation with leading brands in the global market are listed below:

- The Company is one of the two major suppliers of H&M, among the world's most prominent fashion brands, and was designated a Gold Supplier by H&M.
- In 2017, the GAP brand used Çalık Denim fabrics to issue its first slimming collection around the concept 'worth the wiggle'.
- In the American market, the Company is the only denim firm among 20 strategic business partners designated by the Ann Taylor brand for all product groups.
- The Company is the sole supplier of Debenhams' premium segment in Turkey.
- Çalık Denim is one of the two denim suppliers that hold a Swan certificate, highly important in Northern European nations.

Crossing borders in brand recognition, Çalık Denim participated in international trade shows in various parts of the world – from the USA to the Far East – throughout the year.

Fair	Region	Country
Future Fabrics Expo	Europe	UK
Munich Fabric Start	Europe	Germany
Kingpins Show Amsterdam	Europe	Netherlands
Denim Premiere Vision Paris	Europe	France
Kingpins Show Hong Kong	Far East	China
Kingpins Show New York	America	USA
Blueprint Denim Expo	America	USA
Premium Textile Japan	Far East	Japan
Kingpins Show China Tour	Far East	China

In 2017, Çalık Denim participated for the first time in the Future Fabrics Expo, focusing on the concept of sustainability, and showcased its products in this category. Furthermore, at the Munich Fabric Start fair held on February 2017, the denim outfits of fair staff were designed by Çalık Denim using the fabric Circular 100.

# SALES & MARKETING

## EVENTS

### Çalık Denim Bliss – Amsterdam Showroom Opening

Çalık Denim inaugurated its office in Amsterdam, a city that gains more importance every day in the denim world. At the opening on April 19, Çalık Denim hosted its business partners arriving in Amsterdam from across the world. Artist Lot Madeleine, known for her trendsetting discourses and collaborations with the world's top brands, autographed denim vests created with Çalık Denim fabrics during the event.

### Blueprint Denim Days – Amsterdam

In 2017, Çalık Denim participated for the first time in the Blueprint Festival, held on April 21-22 as part of the Amsterdam Denim Days. Following the Kingpins Show Amsterdam, the Company screened its 3D factory film. Çalık Denim's 3D factory promotion film drew great interest from denim lovers during this two-day event attended by top brands such as Calvin Klein, Tommy Hilfiger, Lee and Wrangler.

### Çalık Denim Meet Up – London Events

In 2017, Çalık Denim introduced a new perspective to its regional events, showcasing its collections in special meetings with customers during its Meet Up event in London. At the first event, from May 16-18, the Company launched its Interactive Denim AW 18/19 collection, drawing attention from the international denim community. In addition, the Company presented products specially designed for the event, and screened its 3D factory promotion film, the first of its kind in the world. The three-day event hosted guests from trendsetting brands such as Topshop, River Island, Debenhams and M&S, allowing participants to experience first-hand the fabrics produced with superior technologies.

Following the first event, which received ample interest and appreciation from British customers, the Company held its second London Meet Up between November 7-9, to introduce customers to a collection specially designed for the region. At this very productive event, Çalık Denim hosted top British market brands such as Top Man, All Saints, River Island and Next, and organized a denim bag knitting workshop; at the end of the workshop, the products were gifted to guests.

### New York Denim Days

Çalık Denim participated in the inaugural New York Denim Days, held between September 30 and October 1. The Company screened its Çalık Denim 3D factory promotion, the first of its kind in the world, to its American clients. The Çalık Denim booth drew numerous denim lovers during the two-day event.

## SPONSORSHIPS

### Gerry Weber Open 2017 Tennis Tournament

The Gerry Weber Open, one of the world's most prominent tennis tournaments held by Gerry Weber, took place in Germany on June 18-24, 2017. Çalık Denim sponsored the Tournament, where globally known tennis players such as Rodger Federer participated. Federer became the 2017 singles champion of the Tournament, while brothers Mischa & Alexander Zverev won the doubles final.

### Parsons Benefit Academy Awards

Çalık Denim sponsored the Parsons Benefit Academy Awards organized by Parsons, the USA's most comprehensive arts and design school established in 1896. The school holds the event during the annual graduation ceremony which fell on May 22<sup>nd</sup> this year. Çalık Denim was a "Silver Sponsor" of the event, whose honor guests included Eileen Fisher, known for the sustainable textile manufacturing of her brand, Neiman Marcus Group's CEO Karen Katz, as well as the worldwide fashion and music celebrity Rihanna.

### Habit Fashion Awards

The Habit Fashion Awards, among the most prominent fashion awards for Swedish brands, was held in Stockholm on November 16. As one of the event's sponsors, Çalık Denim presented the year's denim award to Dr. Denim.

## PARTNERSHIPS

### Gerry Weber - Best4Me

The Best4Me collection, based on Çalık Denim's Elastech concept and developed in collaboration with Lycra®, began to be sold at Gerry Weber's 278 stores across Duesseldorf, Munich, Cologne and Hamburg. The Company carried out an efficient advertising campaign at all the stores, via in-store and window displays noting that the Elastech technology was developed by Çalık Denim.

### Parsons College of Fashion

Çalık Denim joined forces with Parsons, the USA's most comprehensive arts and design school established in 1896, in order to provide denim training to designers. In the scope of this collaboration, it has been decided that at the denim classroom of the world's most important fashion school designers will train exclusively on Çalık Denim fabrics, and receive classes from Çalık Denim's sector professionals; these designers will also have the chance to participate in internships at Çalık Denim.



As part of the final project for the first department, all students designed their own collections. The top five designers, chosen by a jury, were invited to submit their looks at the trade shows. The top three designers were offered a summer internship at Çalık Denim. Çalık Denim and the Parsons School of Design will continue their partnership for denim-centric education.

### **ÇALIK DENIM'S NEW BRAND IDENTITY**

Çalık Denim perceives a development vision for its clients that integrates technology and innovation. The Company's new logo and brand identity were crafted after nearly 12 months of research and workshops. Çalık Denim believes that the updated brand identity will strengthen the Company's distinctive position and further differentiate it from its competitors. Çalık Denim's new logo represents a new period in the brand's history, and symbolizes innovation and technology. The new brand identity merges the Çalık Denim brand, products, collections and concepts in a single framework.

With its fresh logo, Çalık Denim aims to create a more modern, innovative and dynamic corporate identity and project this new brand image across all segments. The continuous development principle, which forms the core of the brand, was incorporated into the brand with the motto "Ever Evolving".

### **ÇALIK DENIM'S 30TH ANNIVERSARY PROJECTS AND EVENTS**

#### **Denim Loves Art**

Powered by its own youthfulness, Çalık Denim brought together 30 young international designers on its 30th anniversary. Fashion, design and interior architecture students from prestigious institutions such as Central St. Martins, Parsons, FIDM, Amsterdam Fashion Institute (AMFI), Hannover and Mimar Sinan University participated in this project blending themes related to denim and art. In the scope of the 'Denim Loves Art' project, a total of 30 designs were crafted, not just in clothing but in areas such as furniture, accessories, shoes, bags and carpets, emphasizing denim's diversity and range.

The Exhibition's opening ceremony, featuring these 30 designs, was held on October 11 at the Esma Sultan Mansion in Istanbul. Over 600 guests attended the event, at which Çalık Holding Chairman Ahmet Çalık narrated Çalık Denim's 30-year history and Çalık Denim CEO Hamit Yenici described the Denim Loves Art project. After guests explored the 30 designs by 30 young international designers, the event concluded with a jazz concert.

# SALES & MARKETING

Prior to the İstanbul event, the Company organized a press conference to present its 30th anniversary project, as well as the development of Çalık Denim. The press conference was attended with representatives from Turkey's top media outlets, including Hürriyet, Sabah, Akşam, Milliyet, Dünya and CNN Türk.

Following the İstanbul exhibition, Denim Loves Art opened on October 25 and 26 at one of the sector's most important events, Kingpins Show Amsterdam. The two-day show welcomed hundreds of visitors from the sector and, on the evening of October 25, the 30th year film was screened to celebrate Çalık Denim's anniversary.

Çalık Denim also marked its 30th anniversary in Los Angeles, on December 6, welcoming hundreds of business partners from companies such as Invista, Citizens of Humanity, Guess, AG Jeans, McGuire Denim, Joes Jeans, FIDM and AMFI. The Company also showcased its Denim Loves Art exhibition, featuring 30 young international designers.

Çalık Denim completed its 30th anniversary film, underscoring the corporate values that marked its 30-year journey, and communicating to its business partners the enormous importance that the Company accords to innovation and continuous development.

Additionally, Ali Kabaş, one of Turkey's most well-known photographers, conducted the photo shoots for the works designed for the Denim Loves Art project. Çalık Denim published these photographs and presented copies to its business partners, sharing the unique Denim Loves Art experience.

## Effective Marketing Communication...

Çalık Denim takes an innovative approach, not only in manufacturing, but across all business processes. For example, the Company places great importance on digital marketing. While Çalık Denim is a B2B brand, the Company uses social media actively and sends "Denimag by Çalık" e-bulletins to its customers, to share news about the industry and the Çalık brand.

Çalık Denim achieved yet another first in the industry with its production of a 3D video, which enables the Company's business partners to view the Çalık Denim factory in 3D format, from any location.

## Presented Proudly on Labels...

Premium fabrics, developed and driven by Çalık Denim's superior innovative power to shape the sector trends, continued to be delivered to end consumers in 2017.

Çalık Denim realized product marketing partnerships with pioneering brands such as Devred, from France; D. Clip, from the Far East; and Qipai - with which it collaborated twice during 2017-, thereby underscoring the quality of its products via the collections delivered to the end user.

## Adding value to life through innovation...

In 2017, Çalık Denim continued to create groundbreaking innovations in the sector, and its latest Fly Jean fabrics are ideally aligned with the current "athleisure" style. Ultra-lightness, high elasticity, exceptional softness and shape retention are some of the prominent features of Fly Jean products, which also prevent seam slippage and creases, and are compact enough to fit inside an umbrella cover.

The Smart Stretch concept stands out as a groundbreaking product in the stretch fabric category. Smart Stretch fabrics shape the body without compromising comfort, focusing on the necessary spots while offering comfort in other areas. Shaping with Smart Stretch means 'Comfortable Local Shaping'.

The Red Carpet fabrics stand out at the very first glance and resemble the disco pants of the 1980s. The fabrics' most prominent characteristics are a permanent shiny look, softness and comfort. Red Carpet is ideal for both everyday use and stylish occasions, and its fabrics, featuring different PFD constructions, allow for a wide diversity in terms of appearance and color.

## Fly Jean Marketing Campaign

To promote this concept, Çalık Denim organized a series of product marketing campaigns. For Fly Jean, the Company prepared a concept presentation and a dedicated catalogue explaining the technical aspects of the product. Furthermore, in Amsterdam, the Company prepared a special collection consisting of eight designs with the athleisure theme, and a video film featuring these pieces.

## Partnership with Liberty Fairs Las Vegas

Çalık Denim also focused on the West Coast market, where it plans to increase its market share; and realized in 2017 a partnership project with Liberty Fairs, one of the most prestigious shows of this market, held in Las Vegas. In

the scope of this partnership, the Company launched the athleisure-style Fly Jean collection and its concept video in a special exhibition space assigned by Liberty to Çalık Denim. With this project, Çalık Denim gained the opportunity to reach out to existing and potential customers in the USA market, particularly on the West coast, and received very positive feedback from attendees.

#### **A New Approach to the Athleisure Style: Athfeat.**

As an extension of the special athleisure-style collection prepared with Fly Jean fabrics in Amsterdam, Çalık Denim partnered with Invista and Özak Tekstil to launch a new collection featuring athleisure-themed fits. For Fly Jean fabrics, which include Invista's Lycra fiber, as well as its Coolmax and Thermolite IR technologies, Özak Tekstil invested in new sewing machines to create special fit designs. In alignment with the highly popular athleisure theme, featured in numerous brands' collections as a separate line, Çalık Denim offers its clients and sports brands the denim fabric, which allows for different washes and unlimited diversity, as an alternative to the standard knit fabric.

#### **Collection Photo Shooting**

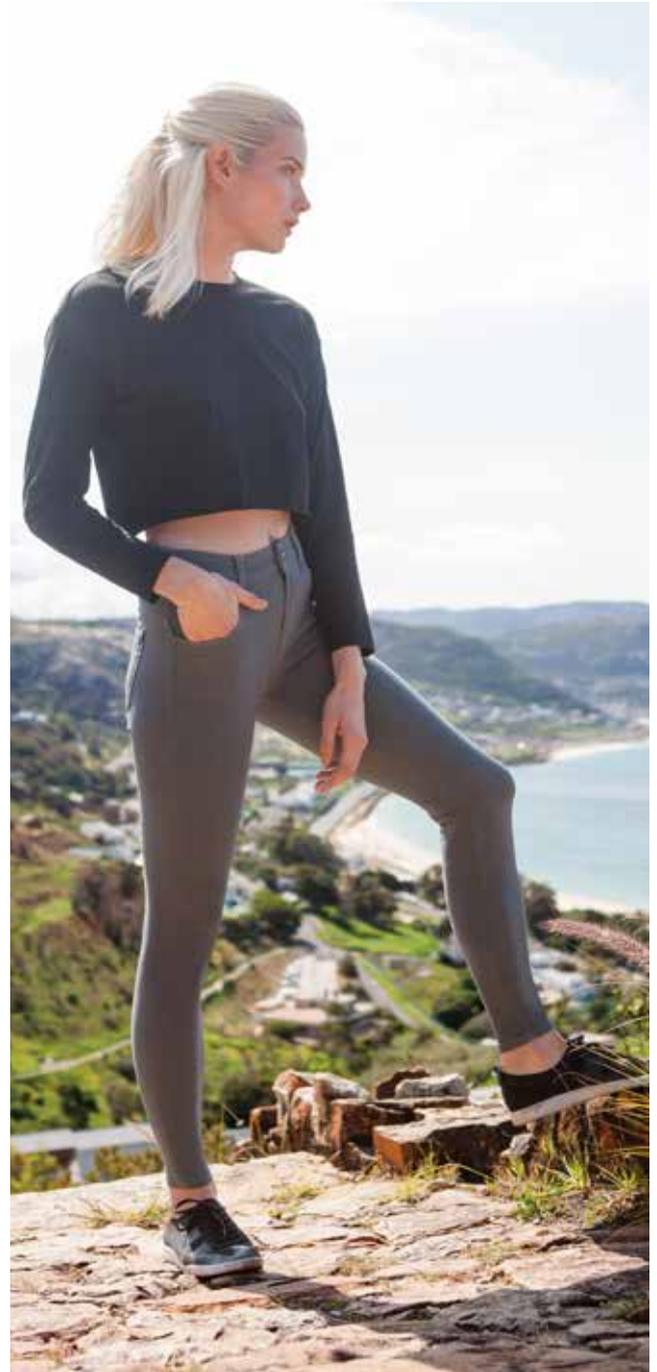
Çalık Denim once again worked with the American photographer, Eric Kvatek, for the photo shoot of its new collections. Locations were selected in accordance with the product concept themes: the Autumn/Winter 2018-2019 collection was shot in Madrid and Toledo, in Spain; while the Spring/Summer 2019 collection was shot in Cape Town.

#### **Sustainable Solutions Partner in the Supply Chain...**

Responding efficiently to the rising demand for products that contain BCI (Better Cotton), Çalık Denim succeeded in meeting BCI demand at rates nearing 100%. Thus, the Company once again fulfilled its mission of becoming a sustainable denim manufacturer in the supply chain.

With a customer-oriented, innovative and flexible approach, Çalık Denim is a globally trusted and robust solutions partner. In addition to fabric production, Çalık Denim provides a know-how service for partner companies. The Company's fast and high-quality solutions, meeting the demands and expectations of its business partners, consistently bring it forward on the most preferred list among prestigious brands.

Çalık Denim continues to strengthen its image as a manufacturer producing future fabrics with future technology, and providing services that exceed expectations with a wide product range.



# INVESTMENTS

Çalık Denim invested over US\$ 130 million between 2010 and 2017 and undertook investments worth approximately US\$ 27 million in 2017.

## TL 96 Million

Investments in 2017

## TL 224.7 Million

Exports

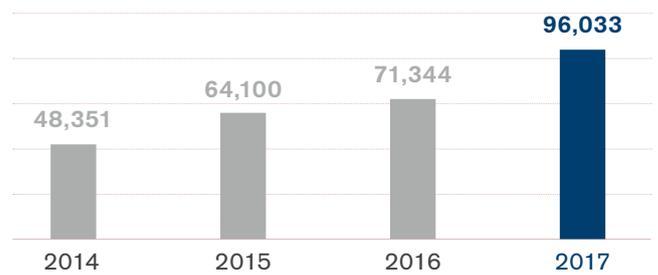
Pioneering the denim industry with distinctive products, Çalık Denim constantly augments its existing quality through modernization.

Within the framework of renovation works carried out in 2017, the following were completed:

- Weaving looms and modernization investments for the Weaving Facility,
- Çalık Denim-designed Rope Winding and Rope Opening investments for the Warp Dyeing Facility,
- Çalık Denim-designed Sanfor machine investment at the Dye Finishing Facility,
- Ring Yarn machine and modernization investments for the Yarn Facility,
- For automation in the scope of Industry 4.0 investments, the Company undertook fabric storehouse AS-RS system investment and SCADA Systems investment, as well as investments for monitoring the electricity, steam, air and water consumption of all facilities and machines.

In addition, Çalık Denim spent approximately TL 100 million in 2017 for energy saving and information systems and modernization investments within the enterprise.

Investments (TL Thousand)





# RESEARCH & DEVELOPMENT AND PRODUCT DEVELOPMENT

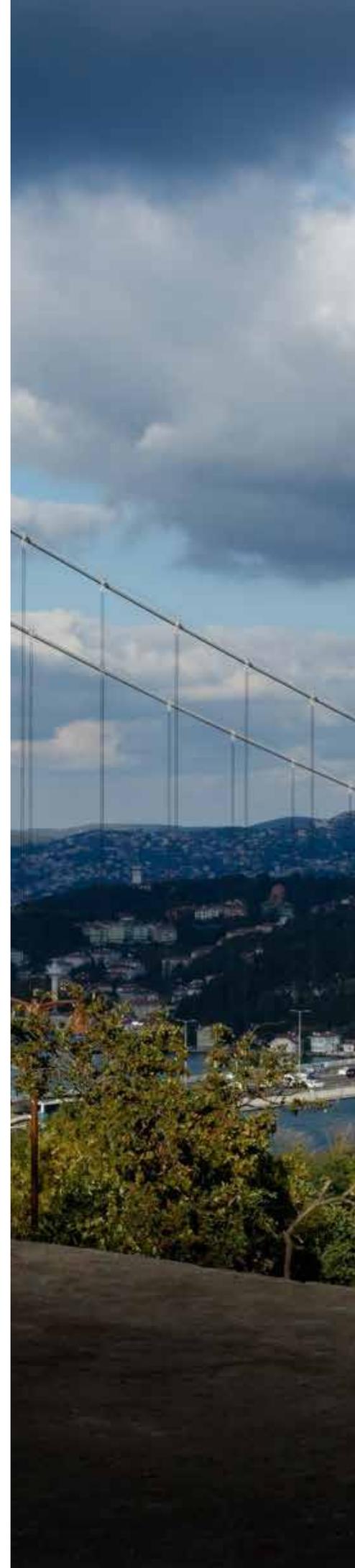
Çalık Denim opened its R&D center in 2011 with a certificate obtained from the Ministry of Science, Industry and Technology. The facility has 1.768 m<sup>2</sup> of covered space, and features office space, a library, a laboratory and hygiene areas.

## 56 People

Number of Employees on the R&D Team

## 1,768 m<sup>2</sup>

Total Area of Çalık Denim R&D Center





# RESEARCH & DEVELOPMENT AND PRODUCT DEVELOPMENT

Çalık Denim's R&D Center operations include innovative product development as well as all production process-related issues such as process improvement and development, establishment of sustainable production systems, and machine / prototype design studies. Even if only innovative product group development studies were assumed to contribute to the commercial turnover, it is clear that the Center's contributions gain momentum each year. All research efforts are aimed at foreseeing developments that may create a competitive edge in the sector, and for protecting and registering these in the Company's name.

In 2011, the Company inaugurated the R&D Center with certification obtained from the Ministry of Science, Industry and Technology. Çalık Denim demonstrates its profound experience in innovative products through new production methods: having the seventh R&D center of the Turkish textile sector, Çalık Denim takes a leading role in the denim industry through new technologies and fabric types developed by a 56-person R&D team.

With great importance accorded to R&D and product development activities, the Company stands out in international markets, and enjoys a competitive edge while creating value for Turkey's economy. Çalık Denim's R&D Center predicts the needs of the market and delivers future designs, while contributing to the denim industry by generating technological know-how. Contributing to the vision of the textile sector via research, the Company has also been acknowledged with R&D and R&D Pioneers awards.

The primary strategies and goals of Çalık Denim's R&D Center, which reflects the Company's dynamism and expertise, include:

- Increasing the number of quality projects with potential to receive support from the institutions and organizations (the Ministry of Science, Industry and Technology, TÜBİTAK, related Ministries, EU funds, etc.) that provide project funding,

- Further increasing the number of activities (trainings, participation in seminars, symposiums, congresses, participation in fairs, exhibitions or project markets) in order to enhance the quality and the competence of personnel at the R&D Center,
- Increasing trainings provided for R&D personnel,
- Identifying new national and international stakeholders for cooperation within the field (universities, research institutes, R&D centers, firms, technology development centers, etc.), and increasing the frequency of activities organized to further develop existing cooperations,
- Strengthening the physical and technological infrastructure of the R&D Center, including the existing data system and database; and enhancing competence in designing high quality R&D projects,
- Preparing projects within the context of EU Framework Programs, Horizon 2020, etc. with stakeholders at national and international levels (suppliers, customers, support units, etc.), and providing support as a project partner.

The long-term strategy and goals of Çalık Denim's R&D Center include:

- Increasing the commercialization rate of R&D-based products manufactured from completed, ongoing or future projects at the R&D Center and raising the share of these products in the Company's turnover,
- Strengthening the physical infrastructure of the R&D Center technologically and carrying out projects with greater quality by increasing personnel efficiency,
- Increasing the number of projects supported by project funding institutions and organizations, and reducing the equity capital ratio in R&D spending.

In 2017, Çalık Denim conducted successful studies on new technologies and production methods with its expert R&D team. The Company provided space for new ideas in the denim industry through planned and completed projects.

Having completed two projects supported by the state's TÜBİTAK-TEYDEB 1505 program in 2015, the Company now continues its preparatory work for four additional project applications to the TÜBİTAK-TEYDEB 1505 program.

For the two projects submitted for protection under industrial property rights, the Company's patent applications with the Turkish Patent Institute (TPE) are currently undergoing evaluation while other patents/utility models are being prepared. The Company also has overseas patent applications that are in the evaluation or preparation phases.

Çalık Denim completed 26 out of the 45 projects carried out with its in-house resources, and continues to work on the remaining 19 projects. Sales of denim fabrics developed with the output of R&D projects contributed 17% to total sales in 2017.

The R&D Center has executed a total of 156 projects since its establishment and completed 137 projects over the past five years. The Center is working on 19 projects at present. During this time, the Company has invested a total of TL 35.4 million in completed and ongoing R&D projects. Commercialized R&D outputs have generated additional income for the Company; more than 65% of R&D expenditures were included in the exemption program. To date, Çalık Denim has sold 21.3 million meters of denim fabrics developed with the output of R&D projects, which generated additional revenue of US\$ 89 million.

During the year, Çalık Denim participated in national and international conferences, conventions, trade shows and seminars to stay abreast of the latest developments in the industry and technology trends. The Company also provided sponsorship for some of these events. At such events, Çalık Denim gains the opportunity to meet with local SMEs, as well as young talent, who might become employees of the Company. Çalık Denim outsourced training from expert organizations and institutions on various topics identified according to the needs of R&D personnel and production engineers.



# RESEARCH & DEVELOPMENT AND PRODUCT DEVELOPMENT

## **ENHANCED R&D SUCCESS WITH STRONG COOPERATION**

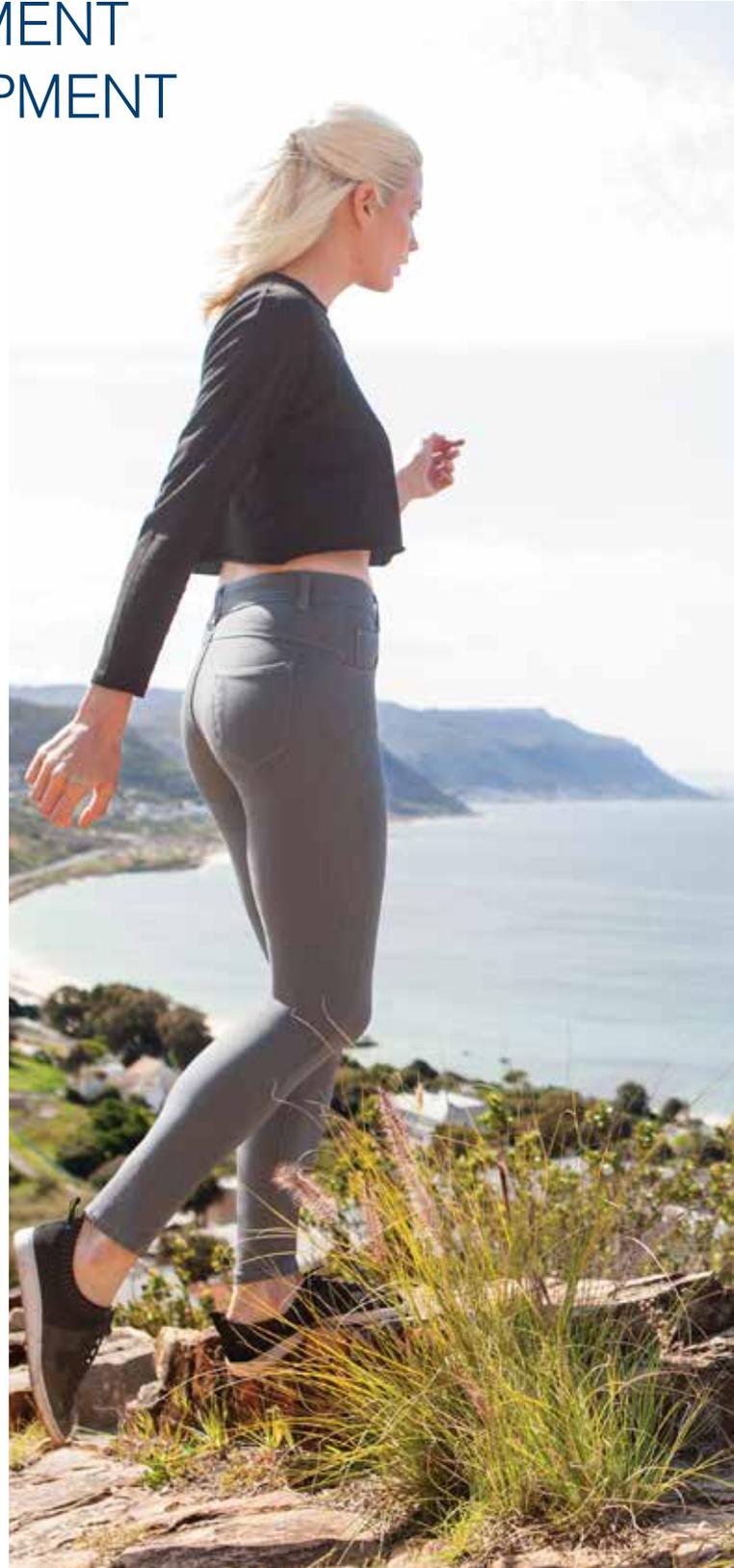
Having realized successful cooperations with Turkish universities, the R&D Center carries out operations to extend these activities to universities abroad. The Center conducts joint projects with 18 universities across the country. These include Çukurova University, Dokuz Eylül University, Erciyes University, Gaziantep University, Gaziosmanpaşa University, Hacettepe University, İnönü University, Istanbul Technical University, Süleyman Demirel University, Sütçü İmam University, Tunceli University, Uludağ University, Fırat University, Karadeniz Technical University, Ege University, İstanbul Aydın University, Mimar Sinan Güzel Sanatlar University and Marmara University.

Çalık Denim also cooperates with universities and research institutes located in Italy, Spain and Germany, and continues its negotiations for cooperations with universities and research institutes located in Belgium, France, Portugal and the UK.

Çalık Denim started talks with institutions acting as worldwide R&D centers in 2015. The Company is engaging in joint projects as per partnership protocols signed with Italian and Spanish research centers in 2016 and German research centers in 2017. To continue and further expand the scope of current project efforts, Çalık Denim plans to visit national and international centers in the coming period to assess their working areas and infrastructure capabilities.

The R&D Center focuses on four main areas:

1. Commercial Products
2. Technological/Mechanical Products (Many projects involving machine designs and modifications, process development and improvement have been conducted)
3. Intellectual Property Rights (Numerous patent applications have been filed both in Turkey and abroad)
4. Scientific Journals/Papers (The R&D Center has performed numerous oral/poster presentations and published papers about projects in various national and international academic programs and platforms)





The Çalık Denim R&D Center won second prize in the “Large-Scale Company/Process Improvement” category at the 2016 Efficiency Projects competition, which is organized annually by the General Directorate of Efficiency of the Turkish Ministry of Science, Industry and Technology. In 2017, the Center reached the finals with its applications in the categories of “Increasing Operational Profitability or Reducing Costs” and “Increasing Performance of Business Processes”, and is awaiting the results of the assessment process.

According to the performance indices of the R&D centers operating under the oversight of Ministry of Science, Industry and Technology, Çalık Denim’s R&D Center is reported to perform above the average of all R&D centers in terms of the basic components of input, process and output.

It is also indicated that the Center performs better than the general average in the subcategories of R&D expenditure intensity, project capacity, commercialization and intellectual property competency, and requires further progress in R&D personnel employment as well as cooperation and interaction.

#### **PRODUCT/COLLECTION DEVELOPMENT EFFORTS IN 2017**

In 2017, Çalık Denim launched two collections: AW 18/19 Interactive Denim and The Next Legacy. AW 18/19 collection’s theme is Interactive Denim, aimed at delivering innovative denim solutions that offer a harmonious interaction between the wearer and out-of-the ordinary fabrics and a pleasing external esthetic appearance. The SS 19 collection’s theme will be The Next Legacy, designed to blend appearance with performance. Developed around the motto the “the Past is the future and the future is now”, the collection draws on new developments in sustainability.

Distinctive concepts in the AW 18/19 and SS 19 collections include:

- Fly Jean
- Red Carpet
- Better World
- Circular Elastech
- Circular Elastech 100
- Denovated
- Raw Stretch
- Fix Fit
- Ultrasoft
- Reflect

# RESEARCH & DEVELOPMENT AND PRODUCT DEVELOPMENT

In a groundbreaking move for the sector, Çalık Denim offered the Raw Stretch concept to customers in its SS18 collection, blending elasticity with comfort in raw fabrics. Normally preferred mainly by male customers, raw denim has started to appeal to women as well, with the efforts of Çalık Denim. These fabrics - which appear rigid - have elasticity between 15-35%. Its shrinkage percentage is between 0-3.5%, as is the case with rigid fabrics. When worn as raw for a long period, these fabrics assume the shape of the wearer's body; since the shrinkage percentage is less, the fabrics retain the shape even when washed. As a result, the fabric adds immense value at the garment stage. One issue associated with raw fabrics is friction: these fabrics tend to dye the body and underclothes - an undesirable result - as they are utilized without being washed first. Çalık Denim applies a special finishing process to prevent this occurrence, and ensures that these fabrics, which are not washed for a periods ranging from six months to one year, assume the shape of the wearer's body. Çalık Denim also implements an anti-bacterial finishing process to eradicate the odor problem in these fabrics left unwashed for a long period.

Çalık Denim introduced the Circular Elastech concept in its AW 17/18 collection. Thanks to the Elastech technology, the collection offers superior comfort through very low weft and warp shrinkage, compared to competing products. For its AW 18/19 collection, Çalık Denim designed the Circular Elastech 100 concept, which offers 360-degree flexibility in the warp and weft directions. With a total elasticity of 100, the fabric offers immense comfort to the wearer, feeling almost absent due to its ultra-softness. These products allow for vertical and horizontal freedom in movement and are very light. Despite the high elasticity, the fabric shrinks only 2% in the weft direction; the fabric width is greater than that of other fabrics with high elasticity in the warp and weft directions; and the fabrics prevent lycra breaks.

Featured in Çalık Denim's AW 18/19 collection, the Red Carpet concept revives a 1980's look. It can be used in both daily garments and evening dresses, and emphasizes a gentle and chic look with metallic yarns. The fabric does not lose its radiance even after washing and offers a wide product range with diverse colors.

Çalık Denim's Fly Jean concept, presented in its SS19 collection in 2017, features highly elastic, ultra-light products, soft enough to be carried in a handbag and then used as if brand new. Designed to add a new dimension to athlejean denim, this concept also creates a whole new authentic impression with its slub effects. It is more elastic in the warp direction rather than the weft direction, to provide ultra-comfort, and is suitable for all kinds of environments throughout the day, making it quite appealing for customers.







**Charlotte Leijen**

In a bubble

-

21 years old, lives in Amsterdam.  
Studies at the department of Denim  
Developer at the Jean School.

**Story behind the Art:**

The art is based on shelter and protection. People commute daily, even through rain and storms. The designer envisioned protective materials and created overalls using material resembling bubble wrap.

## HUMAN RESOURCES

Every member of Çalık Denim Family adopts the corporate mission, vision and goals of the Company and, in conjunction with their own personal goals, works towards their achievement.

**1,925** People

Total Number of Employees

**7.48** Years

Average Tenure of Çalık Denim Employees





# HUMAN RESOURCES

As a robust solution Partner for global brands, Çalık Denim provides services at an integrated production facility and R&D facility in Malatya, as well as at its sales and marketing center in Istanbul, and in offices located in more than 40 countries, with nearly 2,000 employees.

Çalık Denim extends the pioneering and innovative status demonstrated in its production activities to its human resource strategies. Çalık Denim encourages a working environment open to the sharing of ideas and transparency, and prioritizes employee satisfaction, supporting consistent employee development and the adoption of ethical values. In line with these goals, modern human resources practices are incorporated into the Company and the corporate culture.

The pillars of Çalık Denim's human resources policy include:

- Placing the right people in the right position with a customer-oriented approach,
- Making the best use of existing high potential human capital,
- Measuring employee performance with the performance management system,
- Providing career planning with the right job appointments,
- Establishing a long-term cooperation with personnel to ensure the sustainability of the corporate culture.

Every member of Çalık Denim Family adopts the corporate mission, vision and goals of the Company and, in conjunction with their own personal goals, works towards their achievement.

## Number of Employees

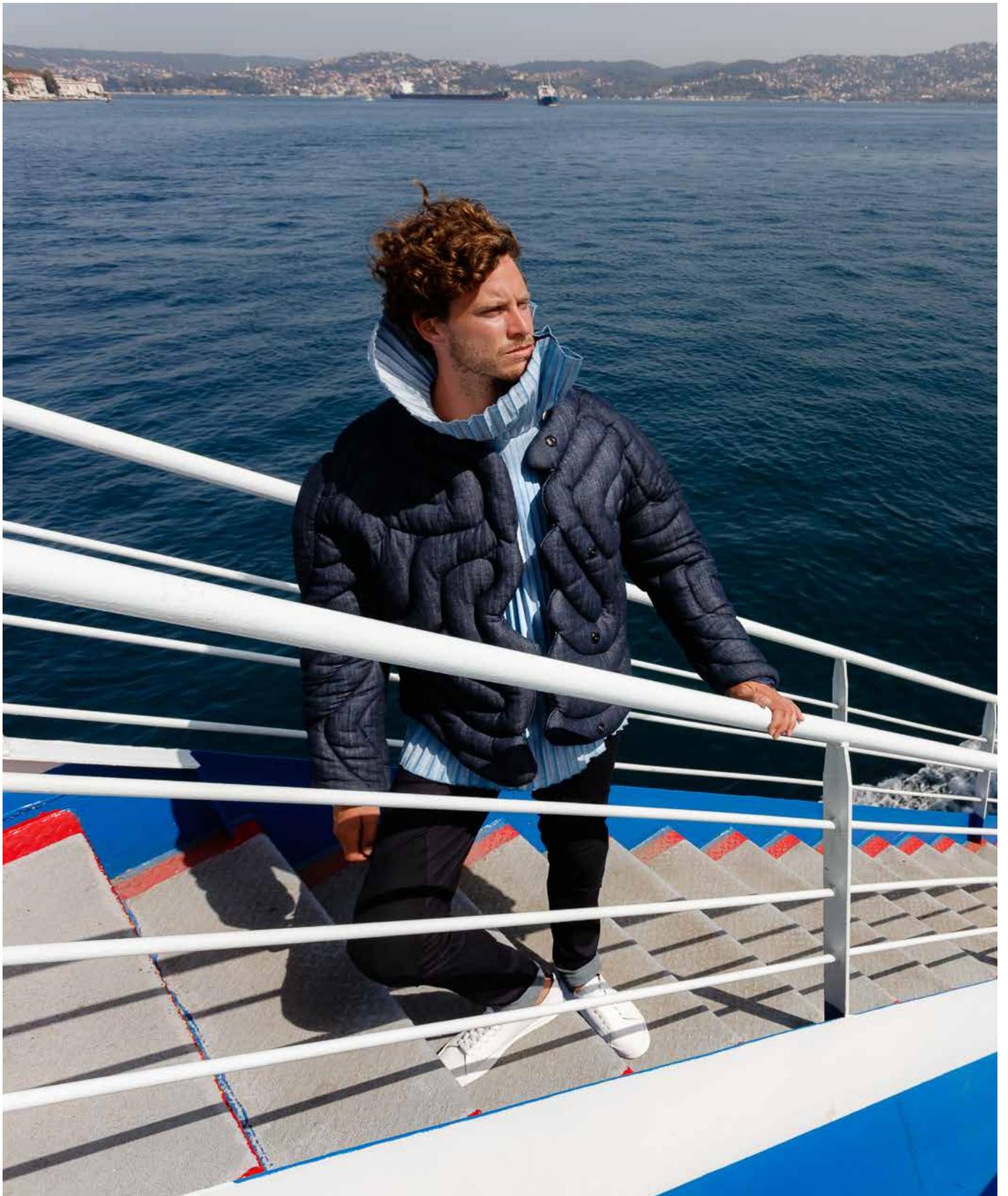
Malatya Factory	1,857
Istanbul Head Office	68
Total	1,925

## Employee Breakdown/Malatya Factory

	White Collar	Blue Collar	Average
Average Age	37	35	35
Average Tenure	9.40	7.27	7.48

## Employee Breakdown/Istanbul Head Office

Average Age	35
Average Tenure	6.24



# OCCUPATIONAL HEALTH & SAFETY

Çalık Denim prioritizes the efficient maintenance of quality, human resources, environment and energy focused systems and carrying out the necessary modernization processes.

Adopting a philosophy of sustainability across all its operations, Çalık Denim prioritizes quality, the individual, the environment and effective energy consumption in all business processes.

The Company implements modern policy and practices on occupational health and safety through the active participation of all employees. Furthermore, it attaches great importance to the effective continuation of quality, human, environmental and energy-oriented systems, and their necessary modernization. Therefore, the Company employs a full-time Office Doctor, and Occupational Safety Experts are on duty to monitor and develop up-to-date practices within the Company.

Çalık Denim was granted OHSAS 18001 Occupational Health and Safety Certification in 2015 by SGS, an independent international company, in recognition of its efforts in this key area. As of this date, the Company conducts its business operations in accordance with the relevant certifications.

This certification relates to measures in the following OHS areas:

- Monitoring risk assessment and measures,
- OHS training activities,
- Root cause analysis in occupational accidents and follow-up on responsive measures,
- OHS controls and follow-up,
- Supervision and measurements in the work environment related to noise, dust, gas, vibration and lighting,
- Emergency plans and drills,
- Health tests and checks upon recruitment and at certain specified intervals,
- Suggestions and near-miss reports,
- Controlling the selection and use of the appropriate personal protective equipment for the work at hand,
- Periodic meetings of the OHS Committee,
- OHS statistics and reporting,
- Controlling subcontracting companies and visitors,
- Tests and checks on lifting and transmission devices.

Çalık Denim's Occupational Health and Safety Policy is mainly as follows:

- Fulfilling compliance obligations,
- Preventing work accidents and occupational diseases,
- Making investment choices in due consideration of Occupational Health and Safety concerns,
- Supporting designs that improve Occupational Health and Safety performance,
- Being an organization that manufactures without sacrificing occupational health and safety,
- Continuous improvement of management systems to improve Occupational Health and Safety performance,
- Allocating the necessary resources to the protection of Occupational Health and Safety personnel and processes.



# THE ENVIRONMENT

## Setting an example with its pioneering practices in environmental sustainability, Çalık Denim demonstrates its commitment in this area with international certifications.

Çalık Denim pays the utmost attention to minimizing damage to the environment in every phase of its activities, from the procurement of raw materials to merchandise delivery. The Company also aims to predict and prevent the negative impacts of business processes on employees, customers, society and future generations. To this end, the Company continues to identify the environmental impact risks of its activities and maintains R&D, systems development and product improvement works to manage these risks.

Çalık Denim implements the following policies to reduce the environmental impact of its operations:

- Waste Management (hazardous and non-hazardous waste are collected and stored separately and delivered to licensed disposal companies),
- Continuous control of the emission values through the SEOS (Continuous Emission Measurement System),
- Waste water discharge permission and wastewater control at specific intervals,
- Storage of chemicals according to their hazard category,
- Protection of the environment, including the prevention of pollution,
- Fulfilment of compliance obligations,
- Making investment choices in due consideration of environmental concerns,
- Supporting designs that improve environmental performance,
- Engaging in production without compromising environmental protection,
- Continuous improvement of management systems to improve environmental performance,
- Allocating the necessary resources for the protection of the environment.

Setting an example with its pioneering practices in environmental sustainability, Çalık Denim substantiates its competence in this area with international certifications.

Çalık Denim carries out the following projects for environmental protection:

- Waste heat recovery,
- Cooling water recovery,
- Recycling caustic agents and indigo dye through storage tanks,
- Using electrostatic filters,
- Participation in ZDHC and detox programs,
- Automated Warehouse System.

### MODERN APPROACHES TO EMISSIONS AND WASTE MANAGEMENT

The integrated manufacturing facility in Malatya has two sources of carbon emissions, as well as units for physical, chemical, biological and slob-based treatment.

Çalık Denim directs the utmost attention to the subject of carbon emissions. To this end, chimney gas emission values have been monitored through online measurement in line with regulations, within the framework of the Constant Emission Measurement System, since 2015.

The Company prioritizes thorough management of waste produced by the Company's operations, and on reducing the environmental impact to zero. At the manufacturing facilities with both Recycle and Ekoteks certification, all waste is collected separately at the source. Hazardous waste is delivered to licensed disposal companies, with other waste delivered to recycling companies. Furthermore, successful projects are ongoing on waste water and on-use-water.

### PROJECTS SENSITIVE TO THE NATURAL BALANCE

Çalık Denim ensures the most efficient use of natural resources in administrative operations as well as production and service processes. Accordingly, it takes measures that include:

- Recycling waste heat from the drying machinery,
- Reducing the amount of salt used in the water softening system,
- Installing a recycling economizer for the waste chimney gas of the coal fired boiler,
- Minimizing electricity use in lighting,
- Recycling caustic agents,
- Recycling indigo dye,
- Administering training programs on safeguarding the environment and water conservation,
- Separating and recycling waste paper in the Company's offices,
- Recycling waste machine oil and vegetable oil,
- Eliminating the use of filter bags in the coal fired boiler.

Numerous other projects along these lines have been implemented.



# ENVIRONMENTALLY-FRIENDLY PRODUCTION TECHNOLOGIES FROM THE R&D CENTER

Çalık Denim received bluesign® certification, the global seal of approval for environmental, health and production safety. Blue Sign certification provides international confirmation of the Company's ability to implement environmental and occupational health practices.

With Better Cotton (BCI) membership, the Company supports environmental, economic and societal sustainability in cotton procurement. Çalık Denim also received bluesign® certification, the global seal of approval for environmental, health and production safety. Blue Sign certification provides international confirmation of the Company's ability to implement environmental and occupational health practices.

Among the products manufactured by the Company to protect nature and human health are:

- Denim fabric produced with recycled cotton,
- Denim fabric produced with recycled polyester,
- 'Paper Denim' fabrics produced via the transformation of waste paper into yarn,
- Denim/gabardine fabrics produced with raw materials manufactured with fewer natural resources (e.g. crailar flax, linen, etc.),
- Denim/gabardine fabrics produced with organic materials and BCI,
- Denim/gabardine fabrics produced with zero emissions and zero use of chemicals,
- Natural denim/gabardine fabrics produced exclusively from completely natural raw material.





## ENERGY

Çalık Denim monitors energy consumption via online measurement systems. The Company also undertakes efforts to reduce its energy consumption of 30,000 TOE (ton of oil equivalent) per year and to boost efficiency.





In line with the ISO 50001 Energy Management System established in 2015, Çalık Denim can closely monitor energy applications in factory business processes. Thanks to the Energy Management System, the necessary improvements in energy performance, efficiency and use will be both continuous and successful.

Within the framework of efforts to achieve maximum production with less energy, the Company's energy managers conduct Energy Revisions. Çalık Denim monitors energy consumption via online measurement systems; the Company also undertakes efforts to reduce its energy consumption of 30,000 TOE (ton of oil equivalent) per year and to boost efficiency.

Çalık Denim conducts detailed energy surveys every four years; monitors electricity, steam, air and water consumption per machine and facility; and develops and implements projects to further increase savings and efficiency.

Çalık Denim has set up an Energy Monitoring System, and is currently in the process of establishing Automation and SCADA systems. This system will enable the Company to monitor electricity, steam, air and water consumption at all facilities and per machine, and record and report all relevant values.

In addition, the Company uses dry-type transformers and BUSBAR systems to provide electricity to high-power facilities and machinery. These systems offer numerous advantages, including environmental safety and a lower loss ratio, as well as non-flammability, and explosion- and fire-proof qualities.

Çalık Denim replaces and upgrades machinery when the units reach 15 years of use in order to utilize energy efficiently and to effectively monitor/control loss/leak ratios. The Company replaces electrical and electronic components with new technology parts, and uses energy-efficient engines, drivers as well as automation and SCADA systems.

# CORPORATE SOCIAL RESPONSIBILITY & THE SOCIETY

Aware that institutions can only grow and develop together with the society they inhabit, Çalık Denim realizes significant projects, particularly in the field of education.

In all its CSR projects, Çalık Denim adheres to the principle of “creating added value for society” in order to contribute to social development while strengthening the national economy with its operations.

Aware that institutions can only grow and develop together with the society they inhabit, the Company realizes significant projects, particularly in the field of education. The Company’s employees support corporate responsibility projects on a voluntary basis.

## **Denim Anatomy**

Denim Anatomy, launched within the scope of the collaboration between the İstanbul Technical University Continuing Education Center and Çalık Denim, is composed of training programs covering theoretical and practical know-how for our business partners. The project includes a program where participants can examine all stages - from cotton to production - of denim, an indispensable element of the fashion concept. In this program, participants also gain an opportunity to discover the areas where denim is used. At the end of the program, participants are granted their certificates by ITU.

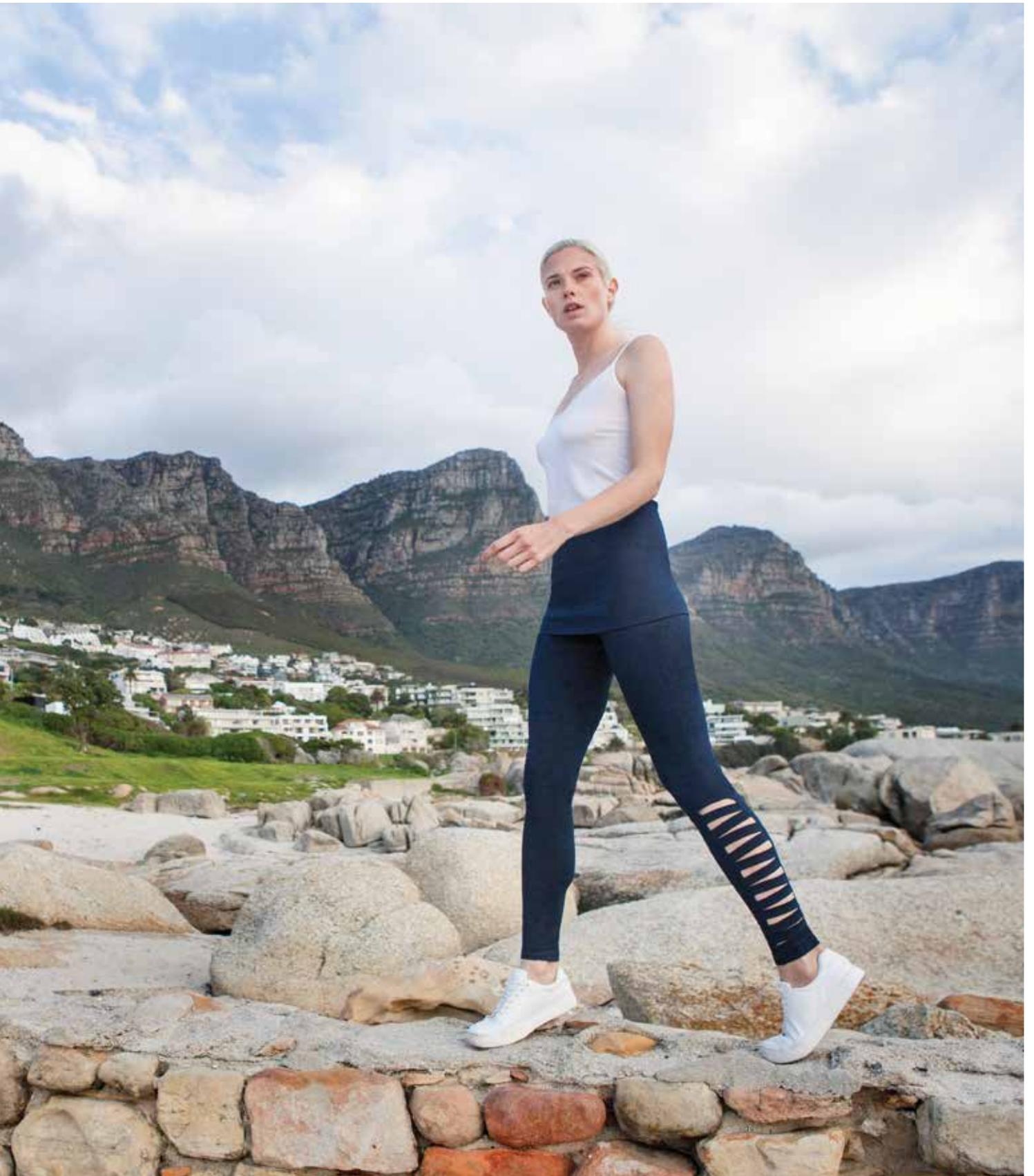
Regularly organizing the Denim Anatomy every year within this scope, Çalık Denim also organized training programs in 2017.

## **FULL SUPPORT TO EDUCATION**

As part of its social responsibility efforts, Çalık Denim continues to support education. To this end, the Company provides lunch to three schools for disabled students: the Turgut Özal Special Needs School; the Abdulkadir Eriş Special Needs School; and the Ali Kuşçu Education Center for Children with Autism.

Believing in the importance of new generations for a brighter future, the Company supports successful university students in need of economic assistance through the Malatya Education Foundation. Under the guidance of Çalık Denim, all contributions made by other Group companies are assessed by the Foundation, and students are provided with scholarship opportunities accordingly.

Çalık Denim initiated the Hundred Percent Support to Education campaign to assist education in Malatya, where its integrated manufacturing facilities are located. The Anadolu High School section of the Mahmut Çalık Educational Complex, which was constructed within the scope of the campaign, opened its doors in the 2012 academic year. Located on a 40,000 m<sup>2</sup> tract, the Mahmut Çalık Educational Complex will consist of a kindergarten, primary schools and a high school. The complex, which is expected to be completed in three stages, will feature dormitories for girls and boys, a gymnasium, teacher accommodation, auxiliary social facilities and a conference hall.





**ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM  
ŞİRKETİ AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEAR ENDED  
31 DECEMBER 2017 WITH INDEPENDENT  
AUDITOR'S REPORT**

30 March 2018

This report includes 2 pages of independent auditor's report and  
71 pages of consolidated financial statements together with  
their explanatory notes and 4 pages of supplementary information.



# **Çalık Denim Tekstil Sanayi ve Ticaret Anonim Şirketi and its Subsidiaries**

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Consolidated Statement of Financial Position
Consolidated Statement of Profit or Loss and Other Comprehensive Income
Consolidated Statement of Changes in Equity
Consolidated Statement of Cash Flows
Notes to the Consolidated Financial Statements

## **Appendix: Supplementary information**



KPMG Bağımsız Denetim ve  
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www.kpmg.com.tr

## Independent Auditors' Report

To the Board of Directors of Çalık Denim Tekstil Sanayi ve Ticaret Anonim Şirketi,

Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of Çalık Denim Tekstil Sanayi ve Ticaret Anonim Şirketi (the "Company") and its subsidiaries (together referred as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with the International Financial Reporting Standards ("IFRS").

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Turkey and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.  
A member of KPMG International Cooperative



Gökçe Adıgüzel  
Engagement Partner  
30 March 2018  
İstanbul, TÜRKİYE

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Consolidated Statement of Financial Position as at 31 December 2017

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

<b>ASSETS</b>	<b>Notes</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Current assets</b>			
Cash and cash equivalents	5	11.351	12.958
Trade receivables	8	212.104	147.202
<i>Due from related parties</i>	4	198	100
<i>Due from third parties</i>		211.906	147.102
Other receivables	9	260.521	233.091
<i>Due from related parties</i>	4	109	9.414
<i>Due from third parties</i>		260.412	223.677
Inventories	10	245.638	166.026
Prepayments	11	34.800	15.183
Current tax assets	21	4.963	3.691
Other current assets	16	26.849	15.571
<b>Subtotal</b>		<b>796.226</b>	<b>593.722</b>
Assets held for sale	6	36.469	33.914
<b>Total current assets</b>		<b>832.695</b>	<b>627.636</b>
<b>Non-current assets</b>			
Other receivables		89	118
<i>Due from third parties</i>		89	118
Financial investments	7	4.472	4.226
Investment property	15	22.137	22.835
Property, plant and equipment	13	451.137	352.347
Intangible assets		1.221	1.961
<i>Other intangible assets</i>	14	1.221	1.961
Prepayments	11	8.739	3.252
Deferred tax assets	21	66.847	66.266
<b>Total non-current assets</b>		<b>554.642</b>	<b>451.005</b>
<b>Total assets</b>		<b>1.387.337</b>	<b>1.078.641</b>

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

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Consolidated Statement of Financial Position as at 31 December 2017

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

LIABILITIES	Notes	31 December 2017	31 December 2016
<b>Current liabilities</b>			
Short term loans and borrowings	17	202.201	244.387
Short term portion of long term loans and borrowings	17	316.755	316.145
Trade payables	8	94.137	65.475
<i>Due to related parties</i>	4	511	1.918
<i>Due to third parties</i>		93.626	63.557
Payables related to employee benefits	18	7.180	3.449
Other payables	9	11.877	200.936
<i>Due to related parties</i>	4	9.048	198.297
<i>Due to third parties</i>		2.829	2.639
Deferred revenue	11	2.955	1.254
Short term provisions	19	7.132	4.417
Short term employee benefits		3.725	3.110
Other short term provisions		3.407	1.307
Other short term liabilities	16	4.079	3.540
<b>Subtotal</b>		<b>646.316</b>	<b>839.603</b>
Liabilities held for sale	6	12.496	9.454
<b>Total current liabilities</b>		<b>658.812</b>	<b>849.057</b>
<b>Non-current liabilities</b>			
Long term loans and borrowings	17	161.246	6.335
Long term provisions		15.433	15.550
<i>Long term employee benefits</i>	19	15.433	15.550
<b>Total non-current liabilities</b>		<b>176.679</b>	<b>21.885</b>
<b>Total liabilities</b>		<b>835.491</b>	<b>870.942</b>
<b>EQUITY</b>			
<b>Equity attributable to the owners of the Company</b>			
Share capital	22	510.000	172.400
Legal reserves	22	31.354	23.442
Other comprehensive income that will never be reclassified to profit or loss		(1.288)	(1.111)
Other comprehensive income that is or may be reclassified to profit or loss		14.885	14.117
Accumulated losses		(9.441)	(4.656)
Profit for the year		6.164	3.127
<b>Total equity attributable to the owners of the Company</b>		<b>551.674</b>	<b>207.319</b>
<b>Total non-controlling interests</b>		<b>172</b>	<b>380</b>
<b>Total equity</b>		<b>551.846</b>	<b>207.699</b>
<b>Total equity and liabilities</b>		<b>1.387.337</b>	<b>1.078.641</b>

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

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2017

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

<b>PROFIT OR LOSS</b>	<b>Notes</b>	<b>2017</b>	<b>2016</b>
Revenue	23	611.399	420.315
Cost of sales	23	(394.816)	(282.722)
<b>Gross profit</b>	<b>23</b>	<b>216.583</b>	<b>137.593</b>
General and administrative expenses	24	(36.605)	(27.545)
Selling, marketing and distribution expenses	24	(41.882)	(35.756)
Research and development expenses	24	(15.693)	(9.454)
Other income	25	36.086	136.765
Other expenses	25	(10.024)	(5.770)
<b>Operating profit</b>		<b>148.465</b>	<b>195.833</b>
Gains from investing activities	26	1.190	3.237
Losses from investing activities	26	(835)	(3.432)
<b>Operating profit before finance costs</b>		<b>148.820</b>	<b>195.638</b>
Finance income	27	16.642	22.671
Finance costs	27	(158.646)	(226.997)
<b>Net finance costs</b>		<b>(142.004)</b>	<b>(204.326)</b>
<b>Profit/(Loss) before tax from continuing operations</b>		<b>6.816</b>	<b>(8.688)</b>
Current tax expense	21	(1.397)	--
Deferred tax benefit	21	537	6.666
<b>Total tax benefit from continuing operations</b>		<b>(860)</b>	<b>6.666</b>
<b>Profit/(Loss) for the year from continuing operations</b>		<b>5.956</b>	<b>(2.022)</b>
<b>Profit for the period from discontinued operations</b>	<b>6</b>	<b>--</b>	<b>6.200</b>
<b>Profit for the year</b>		<b>5.956</b>	<b>4.178</b>
<b>Profit for the year attributable to:</b>			
Owners of the Company		6.164	3.127
Non-controlling interests		(208)	1.051
<b>Net profit for the year</b>		<b>5.956</b>	<b>4.178</b>

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

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2017 *(continued)*

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

	Notes	2017	2016
<b>Other comprehensive income</b>			
<b>Items that will never be reclassified to profit or loss</b>			
Defined benefit obligation actuarial differences	19	(221)	(1.637)
Tax on defined benefit obligation actuarial differences	21	44	327
<b>Items that are or may be reclassified to profit or loss</b>			
Foreign currency translation differences for foreign operations and reporting currency translation differences		768	4.433
<b>Total other comprehensive income</b>		<b>591</b>	<b>3.123</b>
<b>Total comprehensive income</b>		<b>6.547</b>	<b>7.301</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		6.755	6.250
Non-controlling interests		(208)	1.051
<b>Total comprehensive income</b>		<b>6.547</b>	<b>7.301</b>

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

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Consolidated Statement of Changes in Equity for the Year Ended 31 December 2017

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

	Attributable to owners of the Company							Non-controlling interests	Total	Total equity
	Share capital	Legal reserves	Defined benefit obligation actuarial differences	Translation reserve	Accumulated losses	Profit for the year	Total			
<b>Balances at 1 January 2016</b>	164.740	23.984	199	9.684	(29.390)	31.852	201.069	18.459	219.528	
Transfers	--	271	--	--	31.581	(31.852)	--	--	--	
Share capital increase	7.660	(546)	--	--	(7.114)	--	--	--	--	
Sale of subsidiary	--	(267)	--	--	267	--	--	(19.130)	(19.130)	
Defined benefit obligation actuarial differences, net of tax	--	--	(1.310)	--	--	--	(1.310)	--	(1.310)	
Foreign currency translation differences for foreign operations and reporting currency translation differences	--	--	--	4.433	--	--	4.433	--	4.433	
Profit for the year	--	--	--	--	--	3.127	3.127	1.051	4.178	
<b>Balances at 31 December 2016</b>	172.400	23.442	(1.111)	14.117	(4.656)	3.127	207.319	380	207.699	
<b>Balances at 1 January 2017</b>	172.400	23.442	(1.111)	14.117	(4.656)	3.127	207.319	380	207.699	
Transfers	--	--	--	--	3.127	(3.127)	--	--	--	
Share capital increase	337.600	--	--	--	--	--	337.600	--	337.600	
Changes in other reserves	--	7.912	--	--	(7.912)	--	--	--	--	
Defined benefit obligation actuarial differences, net of tax	--	--	(177)	--	--	--	(177)	--	(177)	
Foreign currency translation differences for foreign operations and reporting currency translation differences	--	--	--	768	--	--	768	--	768	
Profit for the year	--	--	--	--	--	6.164	6.164	(208)	5.956	
<b>Balances at 31 December 2017</b>	510.000	31.354	(1.288)	14.885	(9.441)	6.164	551.674	172	551.846	

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

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Consolidated Statement of Cash Flows for the Year Ended 31 December 2017

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

	Notes	2017	2016
<b>Profit for the year</b>		<b>5.956</b>	<b>4.178</b>
Adjustments for depreciation and amortization	13,14	28.428	22.500
Adjustments for doubtful receivables	8	82	514
Adjustments for inventory impairment, net	10	746	837
Adjustments for provision for long term employee benefits	19	3.519	2.836
Adjustments for lawsuit provisions, net	19	2.100	(114)
Adjustments for vacation pay liability	19	615	602
Adjustments for the gains on sales of subsidiary	6	--	(3.864)
Adjustments for change in fair value of investment property	15	698	--
Adjustments for derivative financials		--	--
Dividend income	26	(330)	(216)
Adjustments for interest expenses, net	27,25	47.659	31.650
Rediscount interest losses, net	25	1.360	667
Unrealized foreign currency (income) / loss		40.922	1.402
Adjustments for tax benefit	21	860	(6.300)
Adjustments for the losses/(gains) on sales of property and equipment, net	26	(855)	(1.261)
<b>Adjustments to reconcile cash flow generated from operating activities:</b>		<b>131.760</b>	<b>53.431</b>
Adjustments for change in inventories		(76.186)	(52.185)
Adjustments for change in trade receivables		(61.277)	(24.411)
Adjustments for change in restricted cash and cash equivalents		4.908	(4.685)
Adjustments for change in payables related to employee benefits		3.563	417
Adjustments for change in assets held for sale		487	(4.369)
Adjustments for change in other assets		(10.393)	(8.968)
Adjustments for change in trade payables		25.689	37.412
Adjustments for change in prepayments		(25.104)	(4.708)
Adjustments for change in deferred income		1.701	(547)
Adjustments for change in other liabilities related with operating activities		315	39.348
<b>Changes in working capital</b>		<b>(4.537)</b>	<b>30.735</b>
Collection from doubtful receivables	8	25	503
Employee termination benefit paid	19	(3.857)	(1.559)
Taxes paid	21	(2.669)	(4.797)
Interest paid		--	(18.422)
Interest received		1.339	22.671
<b>Cash flows from operating activities</b>		<b>(5.162)</b>	<b>(1.604)</b>
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>(9.699)</b>	<b>29.131</b>
Proceeds from sales of property and equipment and intangible assets		2.407	3.692
Dividend received		330	216
Capital injection in financial investments	7	(305)	(241)
Net cash inflow/ (outflow) due to acquisition of subsidiary	28	15	--
Share transfer in financial investments	7	59	268
Proceeds from sales of subsidiaries	6	--	7.534
Acquisition of property, plant and equipment	13,17	(62.681)	(61.109)
Acquisition of intangible assets	14	--	(101)
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(60.175)</b>	<b>(49.741)</b>
Interest paid	17	(48.765)	(32.612)
Proceeds from / (repayment of) loans and borrowings, net	17,13	35.992	73.557
Adjustments for change in other payables		128.332	105.668
Adjustments for change in other receivables		(42.384)	(127.598)
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>73.175</b>	<b>19.015</b>
<b>D. TRANSLATION EFFECT OF FOREIGN CURRENCY ON CASH AND CASH EQUIVALENTS</b>		<b>--</b>	<b>1.301</b>
<b>E. NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)</b>		<b>3.301</b>	<b>(294)</b>
<b>F. CASH AND CASH EQUIVALENTS AT THE BEGINING OF THE PERIOD</b>		<b>8.050</b>	<b>8.344</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+F)</b>	<b>5</b>	<b>11.351</b>	<b>8.050</b>

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

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### Notes to Consolidated Financial Statements

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### Appendix: Supplementary information

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 1 Reporting entity

Çalık Denim Tekstil Sanayi ve Ticaret A.Ş. (the "Company" or "Çalık Denim") was established in 1987 in Turkey. Çalık Denim has a branch, namely Gap Güneydoğu Mersin Free Zone and it is engaged in the importation and exportation of textile products.

Çalık Denim's registered address is as follows:

Keresteciler Sitesi Fatih Caddesi Ladin Sokak No:17 Merter

İstanbul/Turkey.

As at 31 December 2017, Çalık Denim has 3 (31 December 2016: 1) subsidiaries ("the Subsidiaries"), and 1 (31 December 2016:1) associate ("the Associate") (referred to as "the Group" herein and after). The consolidated financial statements of the Group as at and for the years ended 31 December 2017 and 2016 comprise Çalık Denim, its subsidiaries and the Group's interest in its associate.

As at 31 December 2017, the number of employees of the Group is 2.106 (31 December 2016: 1.601).

As at 31 December 2017 and 2016, the subsidiaries and the associate included in the consolidation scope of Çalık Denim, their country of incorporation and the nature of businesses and ownership rates are as follows:

Company Name	Type of partnership	Country	Ownership rate%	
			2017	2016
Malatya Boya Emprime Fabrikaları A.Ş.	Subsidiary	Turkey	100.00	--
Çalık Denim B.V	Subsidiary	Holland	100.00	--
Çalık Alexandria For Readymade Garments	Subsidiary	Egypt	94.00	94.00
Gap Türkmen-Türkmenbaşı Jeans Kompleksi	Associate	Turkmenistan	34.80	34.80

#### Çalık Alexandria For Readymade Garments ("Çalık Alexandria")

Çalık Alexandria was established in 2006 in Egypt for the purpose of engaging in the business of manufacturing and marketing ready wear, yarn and textures. The Group reclassified assets and liabilities of Çalık Alexandria as "Assets/liabilities held for sale" based on the decision made by the management and all assets and liabilities of these entities except the cash and cash equivalents

#### Gap Türkmen -Türkmenbaşı Jeans Kompleksi ("TJK")

TJK has been established as a joint venture of Çalık Denim and the Ministry of Textiles Industry of Turkmenistan in 1995 within the frame of Turkmenistan regulations for the purpose of yarn and denim fabric production and marketing. TJK has a denim fabric and jean factory and makes domestic and foreign sales to USA and European countries.

#### Çalık Denim B.V

Çalık Denim B.V has been established in February 2017 in Amsterdam, for the purpose of expanding in the European Zone by making marketing activities.

#### Malatya Boya Emprime Fabrikaları A.Ş. ("Malatya Boya")

Malatya Boya has established in 9 July 1997 in Malatya Turkey. Malatya Boya maintains fabric dyeing process since 1997. Malatya Boya has been acquired from Anateks Group for a consideration equal to the Group's receivables from Anateks Group on 31 August 2017.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 2- Basis of preparation

#### a) Statement of compliance

Group entities operating in Turkey maintain their books of account and prepare their statutory financial statements in Turkish Lira ("TL") in accordance with the accounting principles per Turkish Uniform Chart of Accounts, Turkish Commercial Code and Tax Legislation.

Group's foreign entities maintain their books of accounts and prepare their statutory financial statements in accordance with the generally accepted accounting principles and the related legislations applicable in the countries they operate.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements were approved by the Company management for the submission of the approval of General Assembly on 30 March 2018. Çalık Denim's General Assembly and the other regulatory bodies have the power to amend the statutory financial statements which after their issue.

#### b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis and for the Turkish entities as adjusted for the effects of inflation that lasted by 31 December 2005.

#### c) Functional and presentation currency

The accompanying consolidated financial statements are presented in TL which is Çalık Denim's functional currency. Except as otherwise indicated, financial information presented in TL has been rounded to the nearest thousand.

#### d) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas at estimation uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in the following notes:

- Note 3 (d) and (e) – Useful lives of property and equipment and intangible assets
- Note 19 – Provisions
- Note 21 – Taxation
- Note 29 – Financial instruments – Fair values and risk management
- Note 10 – Impairment in value of inventories
- Note 8 – Allowance for doubtful receivables

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

#### a) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the parent company, Çalık Denim, its subsidiaries and its associate on the basis set out in sections below. The financial statements of the entities included in the consolidation have been prepared as at the date of the consolidated financial statements.

##### i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group has control over an entity when the group has power over the entity, exposure, or rights, to variable returns from its involvement with the entity and the ability to use its power over the entity to affect the amount of the Group's returns. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquire; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

##### ii) Non-controlling interests

The Group measures non-controlling interests at their proportionate share of the subsidiary's net assets.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in profit or loss.

##### iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 3 Significant accounting policies (continued)

#### a) Basis of consolidation (continued)

##### *iv) Loss of control*

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any resulting gain or loss is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

##### *v) Associates (Equity-accounted investees)*

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in associates are accounted for using the equity method and are initially recognised at cost. The cost of investments includes transaction costs.

The consolidated financial statements include the Group's share of profit and loss and other comprehensive income of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associates, the carrying amount of that interest, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

##### *vi) Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of Group's interest in the investee.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Carrying value of shares owned by the Group and dividends arising from these shares has been eliminated in equity and profit or loss accounts.

In consolidation of operating results and financial positions of subsidiaries whose functional currency is other than TL, main consolidation transactions are made such as elimination of related party balances and transactions. But, a monetary asset (or liability) of related parties regardless of short-term or long-term (except for monetary items which are part of net investment of the Group in its subsidiaries whose functional currency is different than TL) cannot be eliminated with related party liability (or related party asset) without presenting results of fluctuation of foreign currencies in consolidated financial statements. Because, a monetary item provides obligation of translation of any currency to other currency and makes the Group exposed to gain or losses arising from fluctuation of foreign currencies. Correspondingly, these kind of foreign exchange differences are recognized in profit or loss of consolidated financial statements of the Group.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 3 Significant accounting policies (continued)

#### b) Foreign currency

##### i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss), a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent the hedge is effective.

As at 31 December 2017 and 2016, closing foreign exchange rates are as follows:

	31 December 2017	31 December 2016
EUR/TL	4,5155	3,7099
USD/TL	3,7719	3,5192

##### ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to TL at exchange rates at the reporting date. The income and expenses of foreign operations are translated to TL at average exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the foreign operation is a non-wholly-owned subsidiary, then the relevant proportion of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operations is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented within equity in the translation reserve.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 3 Significant accounting policies (continued)

#### c) Financial instruments

##### *i) Non-derivative financial assets*

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: loans and receivables, and available-for-sale financial assets.

##### *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade receivables and other receivables.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances, bank deposits and other liquid assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value.

##### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in loans and receivables, at fair value through profit or loss and held to maturity of financial assets. The Group's investments in equity instruments are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost. When an instrument is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 3 Significant accounting policies (continued)

#### c) Financial instruments (continued)

##### *ii) Non-derivative financial liabilities*

The Group initially recognises non-derivative financial liabilities on the date that they are originated.

All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into other financial liabilities which mainly comprise loans and borrowings, trade and other payables and due to related parties.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

##### *iii) Derivative financial instruments*

The Group enters into commodity future contracts for the purpose of avoiding price risk which is resulting from fluctuations in the price of commodities required for the final sale. This contracts are recognized as derivative instruments in the statement of financial position.

The Group does not designate the derivative transaction as a hedging instrument. For that reason derivative financial instruments are measured at fair value than changes in fair value are recognized immediately in profit or loss as incurred.

##### *iv) Share capital*

#### Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 3 Significant accounting policies (continued)

#### d) Property, plant and equipment

##### *i) Recognition and measurement*

The costs of items of property, plant and equipment of Group's Turkish entities purchased before 31 December 2005 are restated for the effects of inflation in TL units current at 31 December 2005 pursuant to IAS 29. Property, plant and equipment purchased after this date are recorded at their historical cost. Accordingly, property, plant and equipment of the Group are carried at costs, less accumulated depreciation and impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- cost of materials and direct labor;
- any other costs directly attributable to bringing the asset to a working condition for its intended use;
- when the Company has an obligation to remove the assets or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the asset) is recognised in "Gains from investing activities" or "Losses from investing activities" under profit or loss.

##### *ii) Subsequent costs*

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

##### *iii) Depreciation*

Items of property, plant and equipment are depreciated from the date that they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the cost of items of property, plant and equipment using the straight-line basis over their estimated useful lives. Depreciation is generally recognised in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 3 Significant accounting policies (continued)

#### d) Property, plant and equipment (continued)

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

Description	Year
Land, land improvements and building	5-50
Machinery and equipments	3-40
Vehicles	4-6
Furniture and fixtures	2-15
Leasehold improvements	5-10
Other tangible assets	3-5

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives, also on a straight-line basis.

Depreciation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

#### e) Intangible assets

Intangible assets of the Group mainly consist of rights and computer software acquired by the Group, which have finite useful lives, and are measured at cost less accumulated amortisation and any accumulated impairment losses, if any.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands is recognised in profit or loss as incurred.

Intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives (3-5 years), from the date that they are available for use.

Amortisation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

#### f) Investment property

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

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## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 3 Significant accounting policies (continued)

#### g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is mainly based on the weighted average, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In case of manufactured inventories and works in progress, cost includes an appropriate share of production overheads based on normal operating capacity

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

The provision for impairment in value of inventories was provided for slow moving and obsolete inventories with respect to sales forecasts and net realizable value estimations.

#### h) Impairment

##### *i) Non-derivative financial assets*

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security because of financial difficulties or observable data indication that there is a measurable decrease in the expected cash flows from a group of financial assets. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

##### *Available-for sale financial assets*

Impairment losses on available-for-sale investment securities are recognised by reclassifying the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, by the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

For an investment in unquoted equity instruments carried at cost because their fair value cannot be measured reliably, impairment losses is not reversed.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 3 Significant accounting policies (continued)

#### h) Impairment (continued)

##### *Financial assets measured at amortised cost*

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

##### *Equity-accounted investees*

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

##### *ii) Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit ("CGU") exceeds its recoverable amount.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 3 Significant accounting policies (continued)

#### h) Impairment (continued)

##### *ii) Non-financial assets (continued)*

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. For the other assets, impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. Impairment loss is reversed when there is a change in the estimates used in the calculation of recoverable amount. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### i) Employee benefits

##### *i) Reserve for employee severance indemnity*

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Group arising from the retirement of the employees of the Group's entities operating in Turkey and calculated in accordance with the Turkish Labour Law. It is computed and reflected in the consolidated financial statements on an accrual basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. The ceiling amounts applicable for each year of employment were TL 4,73 and TL 4,30 at 31 December 2017 and 2016, respectively.

IFRSs require actuarial valuation methods to be developed to estimate the entity's obligation under defined benefit plans. The total liability for employee severance benefit was calculated by an independent actuary based on past service cost methodology using the observable statistical market data such as mortality, inflation and interest rates or retirement pay ceilings applicable to the relevant periods and assumptions derived from the specific historic date of the Group such as retention and employee turnover rates or salary increase rates.

Actuarial gains/losses are comprised of adjustment of difference between actuarial assumptions and realised and change in actuarial assumptions. As a result of the adoption of IAS 19 (2011), all actuarial differences are recognised in other comprehensive income.

Reserve for employee severance indemnity is not subject to any statutory funding.

##### *ii) Vacation pay liability*

Short-term employee benefit obligations are consisting of reserve for the vacation pay liability due to the earned and unused vacation rights of its employees of the Group's Turkish entities, and measured on an undiscounted basis and are recognised in profit or loss as the related service is provided.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 3 Significant accounting policies (continued)

#### j) Revenue

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns and allowances and trade discounts. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sale is recognised.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale but usually take place when the goods are delivered to the customers.

#### k) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale.

Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets and deferred tax assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounted investee is no longer equity accounted.

#### l) Leases

##### i) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases are not recognised on the Group's consolidated statement of financial position.

##### ii) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 3 Significant accounting policies (continued)

#### l) Leases (continued)

##### *iii) Determining whether an arrangement contains a lease*

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. The following two criteria must be met for a "lease":

- the fulfillment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement contains a right to use the asset(s).

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

#### m) Finance income and finance costs

Finance costs comprise interest expense on borrowings and foreign currency losses (excluding those on trade receivables and payables). Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position by each entity of the Group.

#### n) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

##### *Current tax*

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

##### *Deferred tax*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries, joint ventures and associates to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 3 Significant accounting policies (continued)

#### n) Income tax (continued)

##### *Deferred tax (continued)*

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised for unused tax losses, tax credits and incentives and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

##### *Tax exposures*

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

#### o) Subsequent events

Subsequent events represents the events after reporting date comprising any event between the reporting date and the date of authorisation for the consolidated financial statements' issue to the benefit or loss of the entity. Conditions of subsequent events are as follows:

- to have new evidences of subsequent events as of reporting date (adjusting events after reporting date); and
- to have evidences of related subsequent events occurred after reporting date (non adjusting events after reporting date).

The Group adjusts its consolidated financial statements according to the new condition if adjusting subsequent events arise subsequent to the reporting date. If it is not necessary to adjust the consolidated financial statements according to subsequent events, these subsequent events are disclosed in the notes to the consolidated financial statements.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 3 Significant accounting policies (continued)

#### p) Statement of cash flows

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

Cash flows from operating activities reflect cash flows mainly generated from main operations of the Group. The Group presents the cash flows from operating activities by using the indirect method such as adjusting the accruals for cash inflows and outflows from gross profit/loss, other non-cash transactions, prior and future transactions or deferrals.

Cash flows from investment activities express cash used in investment activities (direct investments and financial investments) and cash flows generated from investment activities of the Group.

Cash flows relating to financing activities express sources of financial activities and payment schedules of the Group.

Cash and cash equivalents comprise cash on hand and demand deposits and other bank deposits which their maturities are three months or less from date of acquisition.

#### r) Related parties

Parties are considered related to the Group if:

- (a) Directly, or indirectly through one or more intermediaries, the party:
  - (i) controls, is controlled by, or is under common control with the Group (this includes parent, subsidiaries and fellow subsidiaries);
  - (ii) has an interest in the Group that gives it significant influence over the Group; or
  - (iii) has joint control over the Group;
- (b) the party is an associate of the Group;
- (c) the party is a joint venture/operation in which the Group is a venturer;
- (d) the party is member of the key management personnel of the Group and its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled or significantly influenced by, or for which significant voting power in such entity resides with directly or indirectly, any individual referred to in (d) or (e);
- (g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

A number of transactions are entered into with related parties in the normal course of business.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 3 Significant accounting policies (continued)

#### s) Standards and interpretations issued but not yet effective

##### *Standards issued but not yet effective and not early adopted*

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

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

IFRS 15 issued in May 2014 replaces existing IFRS and US GAAP guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which companies expect to be entitled, rather than fair value and new guidance have been introduced on separating performance obligations for goods and services in a contract and recognition of revenue over time. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is in the process of assessing the impact of the standard on consolidated financial position or performance of the Group.

##### IFRS 9 Financial Instruments

The last version of IFRS 9, issued in July 2014, replaces the existing guidance in IAS 39 "Financial Instruments: Recognition and Measurement". It also carries forward the guidance on recognition, classification, measurement and derecognition of financial instruments from IAS 39 to IFRS 9. The last version of IFRS 9 includes a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements and also includes guidance issued in previous versions of IFRS 9. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is in the process of assessing the impact of the standard on consolidated financial position or performance of the Group.

##### IFRIC 22 – Foreign Currency Transactions and Advance Consideration

On 8 December 2016, IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 22.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 3 Significant accounting policies (continued)

s) Standards and interpretations issued but not yet effective (continued)

#### *Standards issued but not yet effective and not early adopted (continued)*

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

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

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

##### Improvements to IFRSs

IASB issued Annual Improvements to IFRSs - 2014–2016 Cycle for applicable standards. The amendments listed below are effective as of 1 January 2018. Earlier application is permitted. The Group does not expect that application of these improvements to IFRSs will have significant impact on its consolidated financial statements.

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

##### *IFRS 1 "First Time Adoption of International Financial Reporting Standards"*

IFRS 1 is amended to removing of the outdated short-term exemptions for first-time adopters within the context of 'Annual Improvements to IFRSs 2012-2014 Cycle' related to disclosures for financial instruments, employee benefits and consolidation of investment entities.

##### *IAS 28 "Investments in Associates and Joint Ventures"*

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

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 3 Significant accounting policies (continued)

s) Standards and interpretations issued but not yet effective (continued)

#### *Annual Improvements to IFRSs 2014-2016 Cycle (continued)*

##### IAS 40 – Transfers of Investment Property

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 40.

##### IFRS 16 Leases

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

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

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

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 3 Significant accounting policies (continued)

s) Standards and interpretations issued but not yet effective (continued)

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

##### *Improvements to IFRSs*

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

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

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

#### *IAS 12 Income Taxes*

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

#### *IAS 23 Borrowing Costs*

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

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

On 12 October 2017, IASB has issued amendments to IAS 28 to clarify that entities also apply IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. An entity applies IFRS 9 to such long-term interests before it applies related paragraphs of IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group does not expect that application of these amendments to IAS 28 will have significant impact on its consolidated financial statements.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 3 Significant accounting policies (continued)

#### s) Standards and interpretations issued but not yet effective (continued)

##### Amendments to IFRS 9 - Prepayment features with negative compensation

On 12 October 2017, IASB has issued amendments to IFRS 9 to clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. Under IFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include 'reasonable additional compensation' for early termination of the contract. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 9.

##### IFRS 17 –Insurance Contracts

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

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 4 Related party disclosures

#### Related party balances

As at 31 December, the Group had the following balances outstanding from its related parties:

	31 December 2017	31 December 2016
<b>Trade receivables</b>		
Ontk Tekstil San. ve Tic. A.Ş.	198	100
<b>Total</b>	<b>198</b>	<b>100</b>
<b>Other receivables</b>		
Gap Pazarlama A.Ş.	--	9.392
Çalık Textile AB	--	22
Ahmet Çalık	72	--
Çalık Enerji Sanayi ve Ticaret A.Ş.	37	--
<b>Total</b>	<b>109</b>	<b>9.414</b>
	31 December 2017	31 December 2016
<b>Trade payables</b>		
Gap Pazarlama A.Ş.	491	--
Yeşilırmak Elektrik Perakende A.Ş.	20	1.918
<b>Total</b>	<b>511</b>	<b>1.918</b>
<b>Other payables</b>		
Çalık Holding A.Ş. <sup>(*)</sup>	9.048	198.297
<b>Total</b>	<b>9.048</b>	<b>198.297</b>
<b>Loans and borrowings</b>		
Aktifbank Yatırım Bankası A.Ş.	258.594	283.462
	<b>258.594</b>	<b>283.462</b>

<sup>(\*)</sup> As at 31 December 2017, there is no specific maturity for the payables due to Çalık Holding and the Çalık Holding charges the interest to the Group monthly with the annual interest rate of 16,04% (2016: 15,24%).

No impairment losses have been recognised against balances outstanding as at 31 December 2017 (31 December 2016: None) and no allowance has been made for impairment losses on balances with the related parties.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 4 Related party disclosures (continued)

#### Related party transactions

For the year ended 31 December, related party transactions comprised the following:

	2017		2016	
	Income	Expense	Income	Expense
Gap Pazarlama A.Ş. <sup>(*)</sup>	3.852	2.989	2.098	73
Çalık Pamuk Doğal Sentetik Elyaf San ve Tic. A.Ş. <sup>(**)</sup>	501	54.908	9.013	42.137
Gap Pazarlama Dubai FZE <sup>(***)</sup>	334	--	--	--
ONTK TEKSTİL SAN. VE TİC. LTD. ŞTİ.	252	--	307	--
UPT Ödeme Hizmetleri Anonim Şirketi	38	--	--	--
Çalık İnşaat A.Ş.	23	--	--	--
Çiğdem Çalık	--	--	1.478	--
Ahmet Çalık	--	--	1.256	--
Mert Turgut Çalık	--	--	739	--
Mahmut Can Çalık	--	--	591	--
Akbulut Tekstil Ticaret ve San. A.Ş.	--	--	91	1
Çalık Holding A.Ş. <sup>(****)</sup>	--	30.425	--	24.479
Aktifbank Yatırım Bankası A.Ş. <sup>(*****)</sup>	--	21.284	--	24.286
Sigortayeri Sigorta ve Reasürans Brokerliği A.Ş.	--	2	--	--
Çalık Hava Tasimacılık Turizm San. ve Tic. A.Ş.	--	--	--	7
Atayurt İnşaat A.Ş.	--	--	--	3
Yeşilirmak Elektrik Perakende A.Ş. <sup>(*****)</sup>	--	16.031	--	12.126
	<b>5.000</b>	<b>125.639</b>	<b>15.573</b>	<b>103.112</b>

<sup>(\*)</sup>The balance consists of inventory sales to Gap Pazarlama A.Ş.

<sup>(\*\*)</sup>The balance consists of cotton purchased from Çalık Pamuk and cotton sold to Çalık Pamuk and common area expenses for İstanbul Office.

<sup>(\*\*\*)</sup>The balance consist of sales of chemical raw materials to Gap Pazarlama FZE.

<sup>(\*\*\*\*)</sup>The balance consists of contributions to Çalık Holding's common area expenses and interest expenses.

<sup>(\*\*\*\*\*)</sup>The interest expense of the Group amounting to TL 21.284 related with the loans obtained from Aktif Yatırım Bankası.

<sup>(\*\*\*\*\*)</sup> The balance consists of electricity expense.

#### Transactions with key management personnel

On a consolidated basis, key management costs included in general and administrative expenses for the year ended 31 December 2017 amounted to TL 4.285 (2016: TL 2.075).

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 5 Cash and cash equivalents

At 31 December, cash and cash equivalents comprised the following:

	31 December 2017	31 December 2016
Cash on hand	187	703
Cash at banks	11.164	12.255
-Demand deposits	9.154	12.255
-Time deposits	2.010	--
Cash and cash equivalents	11.351	12.958
Restricted balances <sup>(*)</sup>	--	4.908
Cash and cash equivalents in cash flow statement	11.351	8.050

<sup>(\*)</sup>At 31 December 2017, there is no restricted balances.(2016: Restricted balances of the Group consists of balances deposited against loans obtained from bank.)

The Group's exposure to credit and currency risks related to cash and cash equivalents are disclosed in Note 29.

### 6 Disposal group held for sale and discontinued operation

The Group has reclassified assets and liabilities of Çalık Alexandria (31 December 2016: Çalık Alexandria) as "Disposal group held for sale" as the Group plans to sell its production and retail facilities of these subsidiaries. All assets and liabilities of these entities except the cash and cash equivalents have been classified as "Assets held for sale" and "Liabilities held for sale" in the financial statements, respectively.

As at 31 December 2017, assets held for sale and liabilities held for sale are TL 36.469 and TL 12.496 (31 December 2016: TL 33.914 and TL 9.454), respectively, and details are as follows:

<b>Assets held for sale</b>	31 December 2017	31 December 2016
Property, plant and equipment	33.661	31.381
Inventories	2.681	2.416
Intangible assets	55	62
Other current assets	45	30
Other non-current assets	27	25
	<b>36.469</b>	<b>33.914</b>
<b>Liabilities held for sale</b>		
Trade and other payables	12.496	9.454
	<b>12.496</b>	<b>9.454</b>

As at 31 December 2017, the provisions for impairment in value of inventories amounting to TL 6.042 (31 December 2016: TL 5.637) were provided.

As at 31 December 2017, the provisions for impairment in value of property, plant and equipment amounting to TL 6.895 (31 December 2016: TL 6.433) were provided.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 6 Disposal group held for sale and discontinued operation (continued)

Results from discontinued operations

	2017	2016
Revenue	--	300.111
Expenses	--	(297.409)
Results from operating activities	--	2.703
Tax	--	(366)
<b>Profit for the year</b>	<b>--</b>	<b>2.336</b>
<b>Gain on sale of discontinued operations</b>	<b>--</b>	<b>3.864</b>
<b>Profit for the year from discontinued operations</b>	<b>--</b>	<b>6.200</b>

For the year ended 31 December 2016, TL 1.051 and TL 2.076 profit, which were generated from the discontinued operation and continuing operations, respectively, have attributed to the owners of the Company.

Cash flows from discontinued operation

	2016*
Tangible and intangible assets	3.113
Financial investments	263
Inventories	36.089
Trade receivables	57.028
Other receivables	19.024
Prepayments	38.703
Other current assets	5.880
Cash and cash equivalents	19.691
Deferred tax assets	993
Trade payables	(44.876)
Loans and borrowings	(54.673)
Provisions	(357)
Other liabilities	(38.403)
<b>Net assets and liabilities</b>	<b>42.475</b>
Consideration received, satisfied in cash	27.225
Cash and cash equivalents disposed	(19.691)
<b>Net cash inflows</b>	<b>7.534</b>

(\*) The transaction date was on 15 June 2016, and had the effect above on the Group's asset and liabilities on 30 June 2016 which is the date of the subsidiary's available information to be recognized in this transaction since no significant change in the operations and financial information of the subsidiary sold was expected between transaction date and 30 June 2016.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 7 Financial investments

At 31 December, financial investments comprised the following:

<b>Non-current assets</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
Available-for-sale financial investments	4.472	4.226
	<b>4.472</b>	<b>4.226</b>

#### Available-for-sale financial investments

As at 31 December, available-for-sale financial investments comprised the following:

	<b>31 December 2017</b>	<b>31 December 2016</b>
Equity securities not traded in an active market	4.472	4.226
	<b>4.472</b>	<b>4.226</b>

The equity securities that are not traded in an active market comprised following:

	<b>31 December 2017</b>		<b>31 December 2016</b>	
	<b>Ownership rate (%)</b>	<b>Carrying amount</b>	<b>Ownership rate (%)</b>	<b>Carrying amount</b>
Aktif Yatırım Bankası A.Ş.	0,30	4.203	0,30	3.898
Malatya Teknokent Teknoloji Gelişme Bölgesi A.Ş.	5,00	150	5,00	150
Çalık Enerji Dağıtım Sanayi ve Ticaret A.Ş.	0,20	95	0,20	95
Other		24	0,10	83
		<b>4.472</b>		<b>4.226</b>

Carrying amount of the available-for-sale equity instruments that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost after deducting impairment losses, if any.

The movements in financial investments during the years ended 31 December 2017 and 2016 were as follows:

	<b>2017</b>	<b>2016</b>
<b>As at 1 January</b>	<b>4.226</b>	<b>4.253</b>
Additions through capital increases	305	241
Disposals (sale and redemption)	(59)	(268)
<b>As at 31 December</b>	<b>4.472</b>	<b>4.226</b>

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 8 Trade receivables and payables

#### Short-term trade receivables

As at 31 December, short-term trade receivables comprised the following:

	31 December 2017	31 December 2016
Due from third parties	211.906	147.102
Due from related parties(Note 4)	198	100
<b>Total</b>	<b>212.104</b>	<b>147.202</b>

As at 31 December, short-term trade receivables from third parties comprised the following:

	31 December 2017	31 December 2016
Accounts receivable	116.015	80.932
Cheques receivable	98.690	67.446
Doubtful receivables	1.663	1.606
	<b>216.368</b>	<b>149.984</b>
Allowances for doubtful trade receivables (-)	(1.663)	(1.606)
Discount on trade receivables (-)	(2.799)	(1.276)
<b>Total</b>	<b>211.906</b>	<b>147.102</b>

Movements of allowance for doubtful receivables for the years ended at 31 December were as follows:

	31 December 2017	31 December 2016
Balance at 1 January	1.606	2.773
Allowance for the period(Note 25)	82	514
Recoveries of amounts previously impaired (-)(Note 25)	(25)	(503)
Sales of subsidiary	--	(1.178)
<b>Total</b>	<b>1.663</b>	<b>1.606</b>

#### Short-term trade payables

As at 31 December, short-term trade payables comprised the following:

	31 December 2017	31 December 2016
Due to third parties	93.626	63.557
Due to related parties (Note 4)	511	1.918
<b>Total</b>	<b>94.137</b>	<b>65.475</b>

As at 31 December, due to third parties comprised the following:

	31 December 2017	31 December 2016
Accounts payables	93.626	63.557
<b>Total</b>	<b>93.626</b>	<b>63.557</b>

The Group's exposure to credit and currency risks related to trade receivables and liquidity and currency risks of trade payables are disclosed in Note 29.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 9 Other receivables and other payables

#### Other short term receivables

As at 31 December, other short-term receivables comprised the following:

	31 December 2017	31 December 2016
Other receivables <sup>(1)</sup>	254.110	221.725
Receivables from tax authorities	4.981	684
Deposits and guarantees given	1.321	1.268
Due from related parties (Note 4)	109	9.414
<b>Total</b>	<b>260.521</b>	<b>233.091</b>

<sup>(1)</sup> The Group has receivables from Anateks Anadolu Tekstil Fabrikası A.Ş., a former related party of the Group, amounting to TL 254.110 as at 31 December 2017 (31 December 2016: TL 221.725) and the Group charges the interest to the Anateks Anadolu Tekstil Fabrikası A.Ş. with the interest rate of % 6,84 It is expected to be collected until the end of 2018.

#### Other short term payables

As at 31 December, other short-term payables comprised the following:

	31 December 2017	31 December 2016
Due to related parties (Note 4)	9.048	198.297
Deposits and guarantees received	2.829	2.639
<b>Total</b>	<b>11.877</b>	<b>200.936</b>

### 10 Inventories

As at 31 December, inventories comprised the following:

	31 December 2017	31 December 2016
Raw materials	139.301	96.869
Finished goods	64.562	45.252
Semi finished goods	45.536	26.840
Other inventories	115	225
Trading goods	170	140
Allowance for impairment in value of inventories	(4.046)	(3.300)
<b>Total</b>	<b>245.638</b>	<b>166.026</b>

As at 31 December 2017, total insurance coverage on inventories is TL 243.608 (31 December 2016: TL 206.445).

As at 31 December 2017, there is no pledges or mortgages on inventories (31 December 2016: none).

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

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### 10 Inventories (continued)

Movements of impairment in value of inventories for the years ended at 31 December were as follows:

	2017	2016
Beginning balance	3.300	4.370
Current year provision	746	837
Sales of subsidiary	--	(1.907)
<b>Closing balance</b>	<b>4.046</b>	<b>3.300</b>

For the year ended 31 December 2017, a provision for impairment in value of inventories amounting to TL 746 were provided considering the evaluation of obsolete inventories and net reliazable value (31 December 2016: TL 837). Furthermore, included the assets held for sale, there is an impairment of inventories of Çalık Alexandria amounting to TL 6.042 as at 31 December 2017 (31 December 2016: TL 5.637).

### 11 Prepayments and deferred revenue

Current prepayments

As at 31 December, current portion of prepayments comprised the following:

	31 December 2017	31 December 2016
Advances given <sup>(*)</sup>	30.191	12.313
Prepaid expenses	3.017	2.017
Work advances	1.592	853
<b>Total</b>	<b>34.800</b>	<b>15.183</b>

<sup>(\*)</sup> The balance mainly consists of advances given for cotton purchases.

Non-current prepayments

As at 31 December, non-current prepayments comprised the following:

	31 December 2017	31 December 2016
Advances given <sup>(**)</sup>	6.805	1.104
Prepaid expenses	1.934	2.148
<b>Total</b>	<b>8.739</b>	<b>3.252</b>

<sup>(\*\*)</sup> The balance mainly consists of advances given for property, plant and equipment purchase.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 11 Prepayments and deferred revenue (continued)

Short-term deferred revenue

As at 31 December, short-term portion of deferred revenue comprised the following:

<b>Short term deferred revenue</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
Advances received	2.955	1.254
<b>Total</b>	<b>2.955</b>	<b>1.254</b>

### 12 Investments in equity-accounted investees

Associates

Group holds 34,8% ownership in TJK. Since the equity of equity accounted investee remains uncovered due to recurring losses, the Group's interests in the equity accounted investees are reduced to nil. Due to the fact that the Group does not have any commitment for the equity accounted investee, incremental losses over the Group's interests are not recognized. In case of income generation subsequent to the reporting date, excess portion of income over accumulated losses, which were not recognized, are to be accounted in the consolidated financial statements as monitored per each period-end.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 13 Property, plant and equipment

Movements of property, plant and equipment, and related accumulated depreciation during the years ended 31 December were as follows:

Cost	Land, land improvements and buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other tangible assets	Construction in progress	Leasehold improvements	Total
<b>Balance at 1 January 2017</b>	<b>192.289</b>	<b>249.610</b>	<b>4.200</b>	<b>21.600</b>	<b>201</b>	<b>35.268</b>	<b>120</b>	<b>503.288</b>
Additions	14	871	2.762	1.597	--	95.562	2.398	103.204
Transfers	12.524	50.974	218	2.880	--	(66.596)	--	--
Addition of business combinations	25.877	10.074	--	205	18	--	--	36.174
Disposals	--	(1.132)	(2.053)	(14)	--	--	--	(3.199)
<b>Balance at 31 December 2017</b>	<b>230.704</b>	<b>310.397</b>	<b>5.127</b>	<b>26.268</b>	<b>219</b>	<b>64.234</b>	<b>2.518</b>	<b>639.467</b>
<b>Accumulated depreciation</b>								
<b>Balance at 1 January 2017</b>	<b>25.986</b>	<b>109.022</b>	<b>2.078</b>	<b>13.610</b>	<b>201</b>	<b>--</b>	<b>44</b>	<b>150.941</b>
Current year depreciation	4.391	19.633	792	1.987	--	--	846	27.649
Addition of business combinations	1.836	9.351	--	182	18	--	--	11.387
Disposals	--	(1.072)	(563)	(12)	--	--	--	(1.647)
<b>Balance at 31 December 2017</b>	<b>32.213</b>	<b>136.934</b>	<b>2.307</b>	<b>15.767</b>	<b>219</b>	<b>--</b>	<b>890</b>	<b>188.330</b>
<b>Net carrying value at</b>								
<b>1 January 2017</b>	<b>166.303</b>	<b>140.588</b>	<b>2.122</b>	<b>7.990</b>	<b>--</b>	<b>35.268</b>	<b>76</b>	<b>352.347</b>
<b>31 December 2017</b>	<b>198.491</b>	<b>173.463</b>	<b>2.820</b>	<b>10.501</b>	<b>--</b>	<b>64.234</b>	<b>1.628</b>	<b>451.137</b>

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 13 Property, plant and equipment (continued)

Cost	Land, land improvements and buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other tangible assets	Construction in progress	Leasehold improvements	Total
<b>Balance at 1 January 2016</b>	<b>59.543</b>	<b>208.786</b>	<b>5.613</b>	<b>19.632</b>	<b>201</b>	<b>39.687</b>	<b>4.144</b>	<b>337.606</b>
Additions	113.857	345	97	1.352	--	71.868	6	187.525
Transfers	18.912	57.190	451	1.963	--	(76.287)	(3.299)	(1.070)
Sales of subsidiary	--	(522)	(1.909)	(848)	--	--	(731)	(4.010)
Disposals	(23)	(16.189)	(52)	(499)	--	--	--	(16.763)
<b>Balance at 31 December 2016</b>	<b>192.289</b>	<b>249.610</b>	<b>4.200</b>	<b>21.600</b>	<b>201</b>	<b>35.268</b>	<b>120</b>	<b>503.288</b>
<b>Accumulated depreciation</b>								
<b>Balance at 1 January 2016</b>	<b>21.091</b>	<b>106.213</b>	<b>1.663</b>	<b>13.033</b>	<b>201</b>	<b>--</b>	<b>2.143</b>	<b>144.344</b>
Current year depreciation	2.719	16.647	776	1.519	--	--	564	22.225
Transfers	2.193	--	--	--	--	--	(2.193)	--
Sales of subsidiary	--	(65)	(343)	(472)	--	--	(470)	(1.350)
Disposals	(17)	(13.773)	(18)	(470)	--	--	--	(14.278)
<b>Balance at 31 December 2016</b>	<b>25.986</b>	<b>109.022</b>	<b>2.078</b>	<b>13.610</b>	<b>201</b>	<b>--</b>	<b>44</b>	<b>150.941</b>
<b>Net carrying value at</b>								
<b>1 January 2016</b>	<b>38.452</b>	<b>102.573</b>	<b>3.950</b>	<b>6.599</b>	<b>--</b>	<b>39.687</b>	<b>2.001</b>	<b>193.262</b>
<b>31 December 2016</b>	<b>166.303</b>	<b>140.588</b>	<b>2.122</b>	<b>7.990</b>	<b>--</b>	<b>35.268</b>	<b>76</b>	<b>352.347</b>

As at 31 December 2017, total insurance coverage on property, plant and equipment is TL 749.215 (31 December 2016: TL 577.114).

As of December 31 December 2016 property, plant and equipment amounting to TL 108.599 has been received from Anateks Anadolu Tekstil Fabrikası A.Ş., a former related party of the Group.

As at 31 December 2017, there is mortgage over property, plant and equipment amounting to TL 106.546. (31 December 2016: TL 107.152).

As of December 31, 2017, carrying amount of machinery purchased under finance lease machinery and equipment is TL 62.071 (31 December 2016: TL 22.069). The Group acquired machinery and equipment amounting to TL 40.523 through finance lease for the year ended 31 December 2017 (31 December 2016: TL 17.817).

Construction in progress comprised of additional building constructed, machinery and equipment purchased for the expansion of the production capacity.

Depreciation and amortization expenses according to their function are disclosed in note 24.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 14 Intangible assets

Movements of intangible assets and related accumulated amortisation during the years ended 31 December 2017 and 2016 were as follows:

	Rights	Other intangibles	Total
<b>Cost</b>			
<b>Balance at 1 January 2017</b>	<b>1.898</b>	<b>4.491</b>	<b>6.389</b>
Additions of business combinations	55	--	55
<b>Balance at 31 December 2017</b>	<b>1.953</b>	<b>4.491</b>	<b>6.444</b>
<b>Accumulated amortisation</b>			
<b>Balance at 1 January 2017</b>	<b>993</b>	<b>3.435</b>	<b>4.428</b>
Additions	117	662	779
Additions of business combinations	16	--	16
<b>Balance at 31 December 2017</b>	<b>1.126</b>	<b>4.097</b>	<b>5.223</b>
<b>Net carrying value</b>			
<b>1 January 2017</b>	<b>905</b>	<b>1.056</b>	<b>1.961</b>
<b>31 December 2017</b>	<b>827</b>	<b>394</b>	<b>1.221</b>

	Rights	Other intangibles	Total
<b>Cost</b>			
<b>Balance at 1 January 2016</b>	<b>1.637</b>	<b>3.589</b>	<b>5.226</b>
Additions	30	71	101
Transfers	234	836	1.070
Sale of subsidiary	(3)	(5)	(8)
<b>Balance at 31 December 2016</b>	<b>1.898</b>	<b>4.491</b>	<b>6.389</b>
<b>Accumulated amortisation</b>			
<b>Balance at 1 January 2016</b>	<b>903</b>	<b>3.258</b>	<b>4.161</b>
Additions	93	182	275
Sale of subsidiary	(3)	(5)	(8)
<b>Balance at 31 December 2016</b>	<b>993</b>	<b>3.435</b>	<b>4.428</b>
<b>Net carrying value</b>			
<b>1 January 2016</b>	<b>734</b>	<b>331</b>	<b>1.065</b>
<b>31 December 2016</b>	<b>905</b>	<b>1.056</b>	<b>1.961</b>

There is no pledge or mortgage on intangible assets (31 December 2016: none).

As at 31 December 2017, there is no internally generated intangible asset (2016: none).

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 15 Investment property

Investment property

As at 31 December, investment property comprised the following:

	31 December 2017	31 December 2016
Investment property <sup>(*)</sup>	22.137	22.835
<b>Total</b>	<b>22.137</b>	<b>22.835</b>

\*Investment property consists of property acquired from Anateks Anadolu Tekstil Fabrikası A.Ş., a former related party of the Group. As at 31 December 2017, there are mortgages over investment property amounting to TL 22.137 (31 December 2016: TL 22.835).

As of 31 December 2017, investment property movement table following:

	31 December 2017	31 December 2016
1 Ocak 2017	22.835	--
Additions	--	22.835
Change in fair value of investment property	(698)	--
<b>Closing balance</b>	<b>22.137</b>	<b>22.835</b>

Fair value of investment property property was determined by external, independent property valuers, having appropriate recognised professional qualifications. Fair value of investment property was determined by using market benchmarks reflecting the current similar asset prices and income capitalization method.

### 16 Other assets and liabilities

As at 31 December, other current asset comprised the following:

Other current assets

	31 December 2017	31 December 2016
Value Added Tax ("VAT")	26.718	15.571
Other	131	--
	<b>26.849</b>	<b>15.571</b>

As at 31 December, other short-term liabilities comprised the following:

Other short term liabilities

	31 December 2017	31 December 2016
Taxes and duties payable other than on income	4.043	3.505
Other current liabilities	36	35
	<b>4.079</b>	<b>3.540</b>

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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### 17 Loans and borrowings

As at 31 December, loans and borrowings comprised the following:

Short term loans and borrowings	31 December 2017	31 December 2016
Short term bank borrowings	182.910	237.100
Current portion of long term loans and borrowings	312.971	310.253
Factoring payables	3.784	7.287
Finance lease liabilities	19.291	5.892
<b>Total</b>	<b>518.956</b>	<b>560.532</b>

Long term loans and borrowings	31 December 2017	31 December 2016
Finance lease liabilities	29.029	6.335
Long term bank borrowings	132.217	--
<b>Total</b>	<b>161.246</b>	<b>6.335</b>

As at 31 December 2017, the terms and conditions of outstanding loans and borrowings comprised the following:

31 December 2017					
	Currency	Nominal interest rate (%)	Year of maturity	Face value	Carrying amount
Secured bank borrowings <sup>(*)</sup>	USD	2,10 - 3,89	2018-2020	104.312	104.169
Unsecured bank borrowings	TL	15,39 - 18,60	2018-2021	180.680	183.773
Unsecured bank borrowings	USD	6,91 - 7,50	2018-2019	212.128	212.591
Unsecured bank borrowings	EUR	7,00	2018	128.179	127.565
Factoring payables	TL	18,00	2018	3.784	3.784
Finance lease liabilities	EUR	2,50 - 3,00	2018-2021	48.261	48.320
				<b>677.344</b>	<b>680.202</b>

As at 31 December 2016, the terms and conditions of outstanding loans and borrowings were as follows:

31 December 2016					
	Currency	Nominal interest rate (%)	Year of maturity	Face value	Carrying amount
Secured bank borrowings	USD	1,99 - 2,15	2017	80.237	79.737
Unsecured bank borrowings	USD	1,90 - 8,80	2017	260.966	264.171
Unsecured bank borrowings	EUR	4,75 - 8,30	2017	154.746	157.542
Unsecured bank borrowings	TL	7,01 - 14,65	2017	45.270	45.903
Factoring payables	USD	2,68	2017	2.380	2.380
Factoring payables	EUR	3,69	2017	2.392	2.392
Factoring payables	TL	16,19	2017	2.515	2.515
Finance lease liabilities	EUR	2,50 - 2,75	2017-2019	12.227	12.227
				<b>560.733</b>	<b>566.867</b>

<sup>(\*)</sup>There are letter of bank guarantees amounting to USD 28,808 given for Exim Bank loans.(31 December 2016: USD 39,884)

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 17 Loans and borrowings (continued)

The repayment terms of the loans and borrowings and issued bonds are as follows:

	31 December 2017	31 December 2016
0-3 months	120.809	124.096
3-12 months	398.147	436.436
1-5 years	161.246	6.335
<b>Total</b>	<b>680.202</b>	<b>566.867</b>

31 December 2017, reconciliation of short term and long term financial liabilities were as follows:

	1 January 2017	Principal additions, payments, net	Interest expense	Interest paid	Currency translation difference	31 December 2017
Bank borrowing	547.353	46.151	44.194	(47.528)	37.928	628.098
Financial lease liabilities	12.227	33.867	786	(786)	2.226	48.320
Factoring payables	7.287	(3.503)	451	(451)	--	3.784
	<b>566.867</b>	<b>76.515</b>	<b>45.431</b>	<b>(48.765)</b>	<b>40.154</b>	<b>680.202</b>

### 18 Payables related to employee benefits

As at 31 December, payables related to employee benefits comprised the following:

	31 December 2017	31 December 2016
Due to personnel	3.158	2.169
Social security premiums payable	4.022	1.280
	<b>7.180</b>	<b>3.449</b>

### 19 Provisions

As at 31 December, provisions comprised the following items:

	31 December 2017	31 December 2016
<b>Short term provisions</b>		
Short term employee benefits	3.725	3.110
Other short term provisions	3.407	1.307
<b>Total short term provisions</b>	<b>7.132</b>	<b>4.417</b>
<b>Long term provisions</b>		
Long term employee benefits	15.433	15.550
<b>Total long term provisions</b>	<b>15.433</b>	<b>15.550</b>
<b>Total provisions</b>	<b>22.565</b>	<b>19.967</b>

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 19 Provisions (continued)

As at 31 December, short-term and long-term employee benefits comprised the following items:

	31 December 2017	31 December 2016
<b>Short-term</b>		
Vacation pay liability	3.725	3.110
	<b>3.725</b>	<b>3.110</b>
<b>Long term</b>		
Employee termination benefits	15.433	15.550
	<b>15.433</b>	<b>15.550</b>

As at 31 December, other provisions comprised the following items:

	31 December 2017	31 December 2016
<b>Short-term</b>		
Provision for litigations	3.407	1.307
	<b>3.407</b>	<b>1.307</b>

For the years ended 31 December, the movements in the provision for litigations were as follows:

	1 January 2017	Current year provision	Reversal	31 December 2017
Provision for litigations	1.307	3.100	(1.000)	3.407
	<b>1.307</b>	<b>3.100</b>	<b>(1.000)</b>	<b>3.407</b>
	1 January 2016	Current year provision	Reversal	31 December 2016
Provision for litigations	1.421	150	(264)	1.307
	<b>1.421</b>	<b>150</b>	<b>(264)</b>	<b>1.307</b>

### Reserve for employee severance indemnity

In accordance with the existing labour law in Turkey, the Group entities operating in Turkey are required to make lump-sum payments to employees who have completed one year of service and whose employment is terminated without cause or who retire (age of 58 for women, age of 60 for men) or completed service years of 20 for women or 25 for men, are called up for military service or die. According to change of regulation, dated 8 September 1999, there are additional liabilities for the integration articles.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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### 19 Provisions (continued)

For the years ended 31 December, the movements in the reserve for employee severance indemnity were as follows:

	2017	2016
Balance at the beginning of the year	15.550	12.781
Interest cost	1.710	1.323
Cost of services	1.809	1.513
Paid during the year	(3.857)	(1.559)
Sales of subsidiary	--	(145)
Actuarial difference	221	1.637
<b>Balance at the end of the year</b>	<b>15.433</b>	<b>15.550</b>

The reserve has been calculated by estimating the present value of future probable obligation of the Group arising from the retirement of the employees.

Actuarial valuation methods were developed to estimate the Group's obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	2017	2016
Expected rate of salary/limit increase	8,00%	8,00%
Interest rate	11,00%	11,00%

The computation of the liability is predicated upon retirement pay ceiling announced by the Government. As at 31 December 2017, the ceiling amount was TL 4,73 thousand (31 December 2016: TL 4,30 thousand).

#### *Litigation and claims*

As at 31 December 2017, the expected cash outflow amount for the pending claims filed against to the Group is TL 3.407 (31 December 2016: TL 1.307). As at 31 December 2017, the provision for litigation and claims are mainly related to the labor cases against the Group.

#### *Pending tax audits*

In Turkey, the tax and other government authorities (Social Security Institution) have the right to inspect the Group's tax returns and accounting records for the past five fiscal years. The Group has not recognised a provision for any additional taxes for the fiscal years that remained unaudited, as the amount cannot be estimated with any degree of uncertainty. The Group's management believes that no material assessment will arise from any future inspection for unaudited fiscal years.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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### 20 Commitments and contingencies

Guarantee, pledge and mortgages ("GPM") in respect of commitment and contingencies realised in the ordinary course of business were given as at 31 December 2017 are as follows:

31 December 2017	Original currency			TL Equivalent
	USD	Euro	TL	Total
A Total amount of GPMs given in the name of its own legal personality	51.505	480	3.653	200.092
B Total amount of GPMs given in the name of the consolidated subsidiaries and joint ventures	--	--	--	--
- Total amount of GPMs given in the name of the consolidated subsidiaries	--	--	--	--
C Total amount of GPMs given to be able to conduct ordinary business transactions to secure payables of third parties	--	--	--	--
D Other GPMs given	--	--	128.683	128.683
<b>Total</b>	<b>51.505</b>	<b>480</b>	<b>132.336</b>	<b>328.775</b>

GPMs in respect of commitment and contingencies realised in the ordinary course of business were given as at 31 December 2016 are as follows:

31 December 2016	Original currency			TL Equivalent
	USD	Euro	TL	Total
A Total amount of GPMs given in the name of its own legal personality	41.733	1.125	590	151.631
B Total amount of GPMs given in the name of the consolidated subsidiaries and joint ventures	--	--	--	--
- Total amount of GPMs given in the name of the consolidated subsidiaries	--	--	--	--
C Total amount of GPMs given to be able to conduct ordinary business transactions to secure payables of third parties	--	--	--	--
D Other GPMs given	--	--	129.987	129.987
<b>Total</b>	<b>41.733</b>	<b>1.125</b>	<b>130.577</b>	<b>281.618</b>

31 December 2017	31 December 2016	
Letter of guarantee	200.092	151.631
Mortgage	128.683	129.987
<b>Total</b>	<b>328.775</b>	<b>281.618</b>

As at 31 December 2017, the ratio of the other guarantee letter given by the Group to the Group's equity is %23. (2016: %63.)

Other GPMs given consists of the mortgage given to banks for the real estates purchased from the Anateks Anadolu Tekstil Fabrikası A.Ş., a former related party of the Group, as at 31 December 2017. (2016: none)

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 21 Taxation

#### Turkey

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

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

75% of the income derived by entities from the sale of participation shares, immovable property, preferential rights, founders' shares and redeemed shares which are carried in assets at least for two years is exempt from corporate tax as of 31 December 2017. However, according to the amendments by Law numbered 7061, this rate is reduced from 75% to 50% and tax declarations starting from 2018 will be calculated using 50%.

In order to be able to benefit from the exemption, the relevant income should be kept under a fund account in the liabilities and should not be withdrawn from the enterprise for 5 years. The sales amount should be collected by the end of the second calendar year following the year of sale.

There is also a withholding tax on the dividends paid and is accrued only at the time of such payments. According to the amendments in the tax legislations, which became effective from 24 April 2003, dividends that are paid to the shareholders from the profits of the years between 1999 and 2002 are immune from the withholding tax, if such profits are exempted from corporation tax bases of the companies. As per the decision no.2006/10731 of the Council of Ministers published in the Official Gazette no.26237 dated 23 July 2006, certain duty rates included in the articles no.15 and 30 of the new Corporate Tax Law no:5520 revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the non resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions, was increased from 10% to 15%. In applying the withholding tax rates on dividend payments to the non resident institutions and the individuals the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes shown in the consolidated financial statements reflects the total amount of taxes calculated on each entity that are included in the consolidation.

Under the Turkish taxation system, tax losses can be carried forward to be offset against future taxable income for up to five years. Tax losses cannot be carried back.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within four months following the close of the accounting year to which they relate. Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue reassessments based on their findings.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 21 Taxation (continued)

#### *Transfer pricing regulations*

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via Transfer Pricing, dated 18 November 2007 sets details about implementation.

If a tax payer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

#### *Tax applications for foreign subsidiaries and associate of the Group*

##### *Arab Republic of Egypt*

The applicable corporate tax rate for the subsidiaries operating in Egypt is 25% (31 December 2016: 25%). Since the Group is operating in free trade zone of Egypt, the Group is not subject to corporate tax.

##### *Holland*

Dutch corporate income tax is levied at a part of 20% of the taxable income up to and including EUR 200,000. Corporate income tax is levied at 25% for taxable income over EUR 200,000. Companies can distribute some of their profits as dividend to their shareholders. Dividends are subject to tax and the tax rate to be applied over dividend is 15%. Withheld dividend tax can be deducted from the balance payable of the corporate income tax. In addition, Tax losses can be carried back one year and carried forward nine years according to Dutch Tax legislation

#### *Regional government grants*

The Company has obtained regional investment incentive certificate for the capacity increase and modernizations at the yarn production facilities at 19 July 2012 and denim production facilities at 2 January 2013 in Malatya. The apparel incentive certificate was closed on 4 April 2014. Denim and yarn incentive documents were closed on 8 February 2017.

According to these investments incentive certificates 55% of the investment is going to be compensated by the government. The government is not going to pay this balance in cash, but instead the tax rate applied to the income generated from this investment is going to be lower (2% instead of 20%). Since the corporate tax discount rate of the investment incentives is 90%, corporate tax rate is going to be 2%, (20% (20%\*90%=2%).

Hereunder, the discounted tax rate is going to be applied and the Company is going to make tax savings until the income generated from these investments reach to 55% of the investment. When the uncollected tax amount reach to the government contribution, the standart tax rate will be applied.

As described at the related articles of the Announcement Regarding to the Applications of Arbitraments Concerning Government Grants at Investments (Announcement No: 2009/1) and the special terms on the investment incentive certificates, for acceptance of the inception of the investment, the Company has to invest at least 10% of the total investment amount defined at the certificate and has to apply to the Undersecretariat of Treasury and register the investment amount to the investment incentive certificate. The Company has realized the special terms of investment incentive certificate for the capacity increase and modernizations of the clothing, yarn and denim production facilities in Malatya.

As at 31 December 2017, total amount of investments of the Company within the context of those investment incentive certificates is TL 115.200 with 55% investment contribution rate (31 December 2016: TL 115.200) Unused portion of the government grant amounting to TL 63.360 with 55% incentive rate has been recognised as deferred tax assets (31 December 2016: TL 63.360).

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 21 Taxation (continued)

#### *Deduction of research and development*

The research and development deduction regulated in Income and Corporation Tax Law, the regulations are introduced under the Law no. 5746. Within the context of this law, in technology centers, research and development centers, public institutions and bodies and research and development and innovation projects supported by foundations established by law or international funds, in pre-competition cooperation projects; all innovation and research and development expenditures made by beneficiaries of technopreneurship capital support and in research and development centers which employ full time equivalent of 500 or more research and development personnel, and also half of the increase in current year's research and development and innovation expenditures compared to previous years, are deemed as matters of allowance in the identification of public body earnings as per article 10 of the Cooperation Tax Law.

As at 31 December 2017, there is no balance Company can deduct from corporate tax in the following years (31 December 2016: The Company can deduct TL 2.167 from corporate tax in the following years and TL 551 was recognised as deferred tax asset).

Income tax expense/benefit for the years ended 31 December comprised the following items:

<b>Continuing operations</b>	<b>2017</b>	<b>2016</b>
Corporate tax expense	1.397	--
Deferred tax benefit	(537)	(6.666)
<b>Tax benefit recognised in profit or loss</b>	<b>860</b>	<b>(6.666)</b>
Deferred tax benefit/(expense) recognised in other comprehensive income	(44)	(327)
<b>Total tax benefit</b>	<b>816</b>	<b>6.993</b>
<b>Discontinued operations</b>	<b>2017</b>	<b>2016</b>
Corporate tax expense	--	(704)
Deferred tax benefit	--	338
<b>Tax benefit recognised in profit or loss</b>	<b>--</b>	<b>(366)</b>
Deferred tax expense recognised in other comprehensive income	--	--
<b>Total tax expense</b>	<b>--</b>	<b>(366)</b>

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 21 Taxation (continued)

#### Reconciliation of effective tax rate

The reported income tax benefit for the years ended 31 December are different than the amounts computed by applying statutory tax rate to profit before tax as shown in the following reconciliation:

	2017		2016	
	Amount	%	Amount	%
Reported profit/(loss) before taxation	6.816		(2.122)	
Taxes on reported profit per statutory tax rate of the Company	(1.363)	(20)	424	(20)
<b>Permanent differences:</b>				
Disallowable expenses	(1.353)	(20)	(938)	(33)
Tax rate change effect	224	3	--	--
Tax exempt income	414	6	1.789	(63)
Investment incentives effect	--	--	6.131	(215)
Research and development incentives effect	(551)	(8)	551	(19)
Utilised research and development incentive	1.884	28	336	(12)
Effect of different tax rates in foreign jurisdictions	(662)	(10)	(102)	4
Non-taxable permanent differences	--	--	(1.875)	66
Others, net	547	8	(16)	(20)
<b>Tax benefit</b>	<b>(860)</b>	<b>(13)</b>	<b>6.300</b>	<b>(312)</b>

#### Current tax assets

As at 31 December, current tax assets comprised the following:

	2017	2016
Taxes on income	(1.397)	--
Corporation taxes paid in advance	6.360	3.691
<b>Current tax assets, net</b>	<b>4.963</b>	<b>3.691</b>

#### Movement of tax assets and liabilities

	2017	2016
Balance at 1 January assets/(liabilities)	3.691	(1.031)
Current year tax expense	(1.397)	--
Effect of sales of subsidiary	--	(75)
Current year tax payment	2.669	4.797
<b>Balance at 31 December assets/(liabilities)</b>	<b>4.963</b>	<b>3.691</b>

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 21 Taxation (continued)

#### Deferred tax assets and liabilities

Deferred tax is provided in respect of taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for the differences relating to goodwill not deductible for tax purposes and the initial recognition of assets and liabilities which affect neither accounting nor taxable profit.

#### Unrecognised deferred tax assets and liabilities

As at 31 December 2017, there is no unrecognized asset of the Group (31 December 2016: none).

#### Recognised deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities at 31 December are attributable to the items detailed in the table below:

	2017		2016	
	Asset	Liability	Asset	Liability
Trade and other receivables	470	--	255	--
Inventories	914	--	683	--
Property, plant and equipment and intangible asset	--	(2.248)	--	(2.466)
Employee severance indemnity	3.087	--	3.110	--
Provisions	1.569	--	884	--
Investment incentives	63.360	--	63.360	--
Research and development incentives teşvikleri	--	--	551	--
IAS 39 effect on loans and borrowings	--	(379)	--	(274)
Other temporary differences	74	--	188	(25)
<b>Total deferred tax assets/(liabilities)</b>	<b>69.474</b>	<b>(2.627)</b>	<b>69.031</b>	<b>(2.765)</b>
Set off of tax	(2.627)	2.627	(2.765)	2.765
<b>Deferred tax assets/(liabilities) net</b>	<b>66.847</b>	<b>--</b>	<b>66.266</b>	<b>--</b>

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 21 Taxation (continued)

Deferred tax assets and liabilities (continued)

Movements in deferred tax balances during the year 2017 were as follow:

	1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2017
Trade and other receivables	255	215	--	470
Inventories	683	231	--	914
Property, plant and equipment and intangible asset	(2.466)	218	--	(2.248)
Employee severance indemnity	3.110	(67)	44	3.087
Provisions	883	686	--	1.569
Investment incentives	63.360	--	--	63.360
Research and development incentives	551	(551)	--	--
IAS 39 effect on loans and borrowings	(274)	(105)	--	(379)
Other temporary differences	164	(90)	--	74
<b>Total deferred tax assets/(liabilities)</b>	<b>66.266</b>	<b>537</b>	<b>44</b>	<b>66.847</b>

Movements in deferred tax balances during the year 2016 were as follow:

	1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	Sales of subsidiaries	31 December 2016
Trade and other receivables	240	173	--	(158)	255
Inventories	1.083	(380)	--	(20)	683
Property, plant and equipment and intangible asset	(2.385)	(141)	--	60	(2.466)
Employee severance indemnity	2.556	260	327	(33)	3.110
Provisions	837	46	--	--	883
Investment incentives	57.229	6.131	--	--	63.360
Research and development incentives	--	551	--	--	551
IAS 39 effect on loans and borrowings	95	(455)	--	86	(274)
Other temporary differences	240	819	--	(895)	164
<b>Total deferred tax assets/(liabilities)</b>	<b>59.895</b>	<b>7.004</b>	<b>327</b>	<b>(960)</b>	<b>66.266</b>

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 22 Capital and reserves

#### *Paid in capital*

As at 31 December 2017, the Company's statutory nominal value of authorised and paid-in share capital consists of 20.400.000 registered shares (31 December 2016: 6.896.000) having par value of full TL 25 (31 December 2016: TL 25) each.

As at 31 December, the shareholder structure of the Company is presented below:

	2017		2016	
	TL	%	TL	%
Çalık Holding A.Ş.	508.584	99	170.984	99
Ahmet Çalık	1.416	1	1.416	1
<b>Total</b>	<b>510.000</b>	<b>100</b>	<b>172.400</b>	<b>100</b>

#### *Legal reserves*

The legal reserves are established by annual appropriations amounting to 5% of income disclosed in the Group's Turkish entities' statutory accounts until it reaches 20% of paid-in share capital (first legal reserve). Without limit, a further 10% of dividend distributions in excess of 5% of share capital is to be appropriated to increase legal reserves (second legal reserve). The first legal reserve is restricted and is not available for distribution as dividend unless it exceeds 50% of share capital. In the accompanying consolidated financial statements, the total of the legal reserves amounted to TL 31.354 as at 31 December 2017 (31 December 2016: TL 23.442). The Company transferred 75% of the income derived from the sale of subsidiary amounting to TL 7.912 to special fund reserve on 21 July 2017.

#### *Translation reserve*

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 23 Revenue and cost of sales

For the years ended 31 December, revenue comprised the following:

	2017	2016
Domestic sales	397.998	252.450
Export sales	224.717	174.368
Other sales	431	165
Sales discounts (-)	(6.641)	(3.516)
Sales returns(-)	(5.106)	(3.152)
<b>Revenue</b>	<b>611.399</b>	<b>420.315</b>
Cost of sales (-)	(394.816)	(282.722)
<b>Gross profit</b>	<b>216.583</b>	<b>137.593</b>

For the years ended 31 December, cost of sales comprised the following:

	2017	2016
Changes in raw materials and trading goods, and auxiliary expenses	258.692	177.952
Personnel expenses	61.137	50.260
Lighting, gas and water expenses	36.747	26.303
Depreciation and amortisation expenses	19.854	17.155
Maintenance and repair expenses	2.925	2.042
Subcontractor expenses	2.660	1.714
Consultancy expenses	1.593	211
Insurance expenses	1.521	1.359
Rent expenses	768	138
Travel and accommodation expenses	214	157
Representation expenses	119	37
Taxes, duties and fees other than on income	77	10
Education Expenses	32	53
Communication and information expenses	12	22
IT Expenses	9	31
Other	8.456	5.278
	<b>394.816</b>	<b>282.722</b>

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 24 General and administrative expenses, selling, marketing and distribution expenses, and research and development expenses

For the years ended 31 December, general and administrative expenses comprised the following:

	2017	2016
Personnel expenses	13.250	11.302
Charges by Çalık Holding A.Ş. for the common area	7.414	5.853
Consultancy expenses	2.473	1.912
Depreciation and amortisation expenses	1.875	1.228
Maintenance and repair expenses	1.502	390
Insurance expenses	1.396	913
Travel and accommodation expenses	1.343	1.099
Representation expenses	1.313	954
Education expenses	999	846
Taxes, duties and fees other than on income	941	303
IT expenses	688	511
Rent expenses	673	724
Subcontracting expenses	503	497
Communication and information expenses	120	152
Other	2.115	861
	<b>36.605</b>	<b>27.545</b>

For the years ended 31 December, selling, marketing and distribution expenses comprised the following:

	2017	2016
Personnel expenses	11.857	9.689
Consultancy expenses	5.517	1.440
Advertising and promotion expenses	3.600	1.957
Sample expenses	4.965	6.051
Transportation expenses	4.827	3.552
Travel and accommodation expenses	3.647	2.260
Depreciation and amortisation expenses	1.799	677
Fair expenses	1.794	1.499
Rent expenses	1.256	798
Representation expenses	526	480
Insurance expenses	314	272
Office expenses	283	1.470
Communication and information expenses	142	43
Maintenance and repair expenses	65	9
Commission expenses	--	4.733
Other	1.290	826
	<b>41.882</b>	<b>35.756</b>

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 24 General and administrative expenses, selling, marketing and distribution expenses, and research and development expenses (continued)

For the years ended 31 December, research and development expenses comprised the following:

	2017	2016
Depreciation and amortisation expenses	4.900	3.440
Personnel expenses	4.843	3.844
Spare parts and consumable expenses	2.503	660
Consultancy expenses	611	428
Travel and accommodation expenses	540	403
Sample product expenses	447	48
Subcontracting expenses	102	90
Rent expenses	96	104
Lighting, gas and water expenses	67	197
Representation expenses	38	20
Other	1.546	220
	<b>15.693</b>	<b>9.454</b>

For the years ended 31 December, expenses by nature comprised the following:

	2017	2016
Raw materials and auxiliary expenses ve changes in trading goods	258.692	177.952
Personnel expenses	91.087	75.095
Lightning, gas and water expenses	36.814	26.500
Depreciation and amortisation expenses	28.428	22.500
Consultancy expenses	10.194	3.991
Charges from Çalık Holding A.Ş. for participation to expenses	7.414	5.853
Maintenance and repair expenses	4.492	2.441
Travel and accommodation expenses	5.744	3.919
Transportation expenses	4.827	3.552
Sample expenses	5.412	6.099
Subcontracting expenses	3.265	2.301
Insurance expenses	3.231	2.544
Rent expenses	2.793	1.764
Spare parts and consumable expenses	2.503	660
Representation expenses	1.996	1.491
Taxes, duties and fees other than on income	1.018	313
Education expenses	1.031	899
IT expenses	697	542
Office expenses	283	1.470
Communication and information expenses	274	217
Fair expenses	1.794	1.499
Advertising and promotion expenses	3.600	1.957
Commission expenses	--	4.733
Other	13.407	7.185
	<b>488.996</b>	<b>355.477</b>

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 24 General and administrative expenses, selling, marketing and distribution expenses, and research and development expenses (continued)

For the years ended 31 December, personnel expenses comprised the following:

	2017	2016
Wages and salaries	72.492	58.409
Social security expenses	7.003	5.643
Premiums	9.134	7.359
Severance expenses	1.809	1.513
Provision for vacation pay liability	474	382
Other personnel expenses	175	1.789
	<b>91.087</b>	<b>75.095</b>

For the years ended 31 December, depreciation and amortisation expenses comprised the following:

	2017	2016
Cost of sales	19.854	17.155
Research and development expenses	4.900	3.440
General and administrative expenses	1.875	1.228
Selling, marketing and distribution expenses	1.799	677
	<b>28.428</b>	<b>22.500</b>

### 25 Other income and expenses

For the years ended 31 December, other income comprised the following:

	2017	2016
Foreign exchange gains, net	29.064	134.694
Provisions no longer required (Note 19)	1.000	264
Catering income	1.746	1.195
Rent income	1.468	--
Interest income	1.339	--
Rediscount income	170	--
Other operating income	110	--
Collection from doubtful receivables (Note 8)	25	503
Other income from operating activities	1.164	109
	<b>36.086</b>	<b>136.765</b>

For the year ended 31 December, other operating expenses comprised the following

	2017	2016
Lawsuit provision expenses (Note 19)	3.100	150
Rediscount interest expense	1.530	667
Labor lawsuit expense	1.350	1.128
Cost of catering services	996	647
Provision for doubtful receivables (Note 8)	82	514
Donation expenses	642	439
Other expense from operating activities	2.324	2.225
	<b>10.024</b>	<b>5.770</b>

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 26 Gains and losses from investing activities

For the years ended 31 December, gains from investing activities comprised the following:

	2017	2016
Gain on sale of property, plant and equipment	860	2.675
Dividend income	330	216
Other	--	346
	<b>1.190</b>	<b>3.237</b>
	<b>2017</b>	<b>2016</b>
Loss on sale of property, plant and equipment	5	2.939
Loss due to change in fair value of investment property	698	
Other	132	493
	<b>835</b>	<b>3.432</b>

Gain on sale of property, plant and equipment amounting to TL 1.525 was recognized under discontinued operations for the year ended 31 December 2016 (2015: TL16).

### 27 Finance income and finance costs

For the years ended 31 December, finance costs comprised the following:

	2017	2016
Foreign exchange losses on loans and borrowings, net	82.266	169.468
Interest expense on borrowings (Note 17)	45.431	33.572
Interest expense from related parties	20.209	18.422
Bank commission expenses	7.405	495
Factoring expenses	451	2.416
Other finance costs	2.884	2.624
<b>Total</b>	<b>158.646</b>	<b>226.997</b>

For the years ended 31 December, finance income comprised the following:

	2017	2016
Interest income	16.642	22.671
<b>Total</b>	<b>16.642</b>	<b>22.671</b>

Net interest expense of TL 2.327 for the year ended 31 December 2016 is presented under discontinued operations.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 28 Acquisition of subsidiary

The combination had the following effect on the Group's assets and liabilities on acquisition date:

		31 August 2017	
	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition date
Current assets	9.970	--	9.970
Non-current assets	5.660	19.523	25.183
Current liabilities	(3.528)	--	(3.528)
Non-current liabilities	--	--	--
<b>Net identifiable assets and liabilities acquired</b>	<b>12.102</b>	<b>19.523</b>	<b>31.625</b>
Consideration in exchange for receivables		31.625	
Consideration paid in cash <sup>(*)</sup>			--
Cash acquired			(15)
<b>Net cash consideration paid</b>			<b>(15)</b>

<sup>(\*)</sup> 100% of Malatya Boya's shares have been acquired from Anateks Group for a consideration of TL 31.625 against Group's receivables from Anateks Group on 31 August 2017.

The Group incurred acquisition related costs of TL 6 on legal fees. These costs have been included under general and administrative expenses.

Post acquisition contributions to the Group

	Malatya Boya	Total
Revenue	18.645	18.645
Net (loss)/ profit	598	598

If the acquisition had occurred on 1 January 2017, management estimates that the impact to the Group's revenue and net profit would be:

	Revenue	Net profit
Group per reported	611.399	5.956
<i>If acquisition would be on 1 January 2017, additional contribution for the period of January-September 2017</i>		
- From Malatya Boya	46.531	706
<b>New adjusted Group</b>	<b>657.930</b>	<b>6.662</b>

Valuation method for Malatya Boya is discounted cash flow method.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 29 Financial instruments – Fair values and risk management

Financial risk management

#### *Overview*

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

#### Risk management framework

Risk management activities are conducted by a realistic organizational structure and it is fully supported with the commitment of top level management.

Group acts proactively in terms of risk management in order to ensure that its business operations in different industries and regions are not adversely affected as a result of market, operational, liquidity and counterparty risks. Risk Management and internal audit departments within Çalık Holding A.Ş. and at the Group level provide and maintain awareness for different types of risks, including emerging risks, and ensure that appropriate risk management mechanisms are in place.

#### Credit risk:

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The Group's principal financial assets are cash and cash equivalents, financial investments, trade receivables and other receivables. The Group requires a certain amount of collateral in respect of its account receivable. Credit evaluations are performed on all customers requiring credit over a certain amount on individual level.

At reporting date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 29 Financial instruments – Fair values and risk management (continued)

#### 31 December 2017

	Receivables					
	Trade receivables		Other receivables		Cash at banks	Derivatives
	Related party	Third party	Related party	Third party		
<b>Maximum credit risk exposure at reporting date (A+B+C+D)</b>	<b>198</b>	<b>211.906</b>	<b>109</b>	<b>260.501</b>	<b>11.164</b>	<b>--</b>
Portion of maximum risk covered by guarantees	--	2.677	--	--	--	--
A. Carrying value of financial assets that are neither past due nor impaired	198	196.095	109	6.391	11.164	--
B. Carrying value of financial assets that are past due but not impaired	--	14.147	--	254.110	--	--
C. Carrying value of impaired assets	--	--	--	--	--	--
Past due (gross carrying amount)	--	1.663	--	--	--	--
Impairment (-)	--	(1.663)	--	--	--	--
The part of net value under guarantee with collateral etc	--	--	--	--	--	--
Not past due (gross carrying amount)	--	--	--	--	--	--
Impairment (-)	--	--	--	--	--	--
D. Elements including credit risk on off statement of financial position	--	--	--	--	--	--

#### 31 December 2016

	Receivables					
	Trade receivables		Other receivables		Cash at banks	Derivatives
	Related party	Third party	Related party	Third party		
<b>Maximum credit risk exposure at reporting date (A+B+C+D)</b>	<b>100</b>	<b>147.102</b>	<b>9.414</b>	<b>223.795</b>	<b>12.255</b>	<b>--</b>
Portion of maximum risk covered by guarantees	--	2.878	--	--	--	--
A. Carrying value of financial assets that are neither past due nor impaired	100	139.400	9.414	2.070	12.255	--
B. Carrying value of financial assets that are past due but not impaired	--	7.702	--	221.725	--	--
C. Carrying value of impaired assets	--	--	--	--	--	--
Past due (gross carrying amount)	--	1.606	--	--	--	--
Impairment (-)	--	(1.606)	--	--	--	--
The part of net value under guarantee with collateral etc	--	--	--	--	--	--
Not past due (gross carrying amount)	--	--	--	--	--	--
Impairment (-)	--	--	--	--	--	--
D. Elements including credit risk on off statement of financial position	--	--	--	--	--	--

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 29 Financial instruments – Fair values and risk management (continued)

Credit risk (continued)

*Impairment losses*

The aging of trade and other receivables from third parties at the reporting date was:

	2017		2016	
	Gross	Impairment	Gross	Impairment
Not past due	204.150	--	141.470	--
Past due 0-30 days	9.521	--	7.360	--
Past due 31-120 days	4.171	--	197	--
Past due 121-365 days	455	--	145	--
More than one year <sup>(*)</sup>	255.773	(1.663)	223.331	(1.606)
<b>Total</b>	<b>474.070</b>	<b>(1.663)</b>	<b>372.503</b>	<b>(1.606)</b>

<sup>(\*)</sup> The Group has receivables from Anateks Anadolu Tekstil Fabrikası A.Ş., a former related party of the Group, amounting to TL 254.110 recognized under other receivables as at 31 December 2017 (31 December 2016: TL 221.725 ). It is expected to be collected until the end of 2018.

### Liquidity risk

Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both risk of being unable to fund assets at appropriate maturities and rates and risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. The Group has access to funding sources from banks and keeps certain level assets as cash and cash equivalents. The Group continuously assesses liquidity risk by identifying and monitoring changes in funding required in meeting business goals and targets set in terms of the overall Group strategy.

As at 31 December, the followings are carrying amounts, contractual cash flows and the contractual maturities of financial liabilities are as follows:

	31 December 2017					
	Carrying amount	Total contractual cash flows	Less than 3 months	3-12 months	1-5 years	More than 5 years
<b>Contractual maturities</b>						
<b>Non-derivative financial liabilities</b>						
Loans and borrowings	631.882	685.138	117.095	406.480	161.563	--
Finance lease liabilities	48.320	52.131	5.403	15.829	30.899	--
Trade payables-due to related parties	511	716	716	--	--	--
Trade payables-due to third parties	93.626	93.716	93.716	--	--	--
Other payables-due to related parties	9.048	9.048	9.048	--	--	--
Other payables-due to third parties	2.829	2.829	2.829	--	--	--
Payables related to employee benefits	7.180	7.180	7.180	--	--	--
	<b>793.396</b>	<b>850.758</b>	<b>235.987</b>	<b>422.309</b>	<b>192.462</b>	<b>--</b>

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 29 Financial instruments – Fair values and risk management (continued)

Liquidity risk (continued)

Contractual maturities	31 December 2016					
	Carrying amount	Total contractual cash flows	Less than 3 months	3-12 months	1-5 years	More than 5 years
Non-derivative financial liabilities						
Loans and borrowings	554.640	583.300	124.195	459.105	--	--
Finance lease liabilities	12.227	13.020	1.616	4.849	6.555	--
Trade payables-due to related parties	1.918	1.918	1.918	--	--	--
Trade payables-due to third parties	63.557	63.557	63.557	--	--	--
Other payables-due to related parties	198.297	198.297	198.297	--	--	--
Other payables-due to third parties	2.639	2.639	2.639	--	--	--
Liabilities recognized in employee benefits	3.449	3.449	3.449	--	--	--
	<b>836.727</b>	<b>866.180</b>	<b>395.671</b>	<b>463.954</b>	<b>6.555</b>	<b>--</b>

#### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

#### Currency risk

The Group is exposed to currency risk through the impact of rate changes on the translation of foreign currency denominated payables and bank borrowings from financial institutions. The currencies in which these transactions primarily are denominated are Euro and USD. Such risk is monitored by the Board of Directors and limited through taking positions within approved limits as well as using derivative instruments where necessary.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances. To minimise risk arising from foreign currency denominated statement of financial position items, the Group sometimes utilises derivative instruments as well as keeping a part of its idle cash in foreign currencies.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 29 Financial instruments – Fair values and risk management (continued)

#### Currency risk (continued)

	31 December 2017			
	TL Equivalent	USD	EUR	Other*
1. Trade receivables	101.816	8.140	15.749	--
2a. Monetary financial assets (including cash on hand, bank deposits)	262.323	68.402	955	3
2b. Other monetary assets	--	--	--	--
3. Other	33.068	8.024	605	69
<b>4. Current assets (1+2+3)</b>	<b>397.207</b>	<b>84.566</b>	<b>17.309</b>	<b>72</b>
5. Trade receivables	--	--	--	--
6a. Monetary financial assets	--	--	--	--
6b. Non-monetary financial assets	--	--	--	--
7. Other	2.201	28	457	33
<b>8. Non-current assets (5+6+7)</b>	<b>2.201</b>	<b>28</b>	<b>457</b>	<b>33</b>
<b>9. Total assets (4+8)</b>	<b>399.408</b>	<b>84.594</b>	<b>17.766</b>	<b>105</b>
10. Trade payables	(35.390)	(6.067)	(2.760)	(44)
11. Financial liabilities	(375.585)	(60.641)	(32.522)	--
12a. Other monetary liabilities	(19.919)	(5.281)	--	--
12b. Other non-monetary liabilities	(1.165)	(269)	(33)	--
<b>13. Short term liabilities (10+11+12)</b>	<b>(432.059)</b>	<b>(72.258)</b>	<b>(35.315)</b>	<b>(44)</b>
14. Trade payables	--	--	--	--
15. Financial liabilities	(117.060)	(23.339)	(6.429)	--
16a. Other monetary liabilities	--	--	--	--
16b. Other non-monetary liabilities	--	--	--	--
<b>17. Long term liabilities (14+15+16)</b>	<b>(117.060)</b>	<b>(23.339)</b>	<b>(6.429)</b>	<b>--</b>
<b>18. Total liabilities (13+17)</b>	<b>(549.119)</b>	<b>(95.597)</b>	<b>(41.744)</b>	<b>(44)</b>
<b>19. Net position of off-statement of financial position derivative instruments (19a+19b)</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>19a. Total hedged assets</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>19b. Total hedged liabilities</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>20. Net statement of financial position</b>	<b>(149.711)</b>	<b>(11.003)</b>	<b>(23.978)</b>	<b>61</b>
<b>21. Net statement of monetary items (=1+2a+5+6a+10+11+12a+14+15+16a)</b>	<b>(183.815)</b>	<b>(18.786)</b>	<b>(25.007)</b>	<b>(41)</b>

\* TL equivalent

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 29 Financial instruments – Fair values and risk management (continued)

#### Currency risk (continued)

	31 December 2016			
	TL Equivalent	USD	EUR	Other *
1. Trade receivables	70.962	5.673	13.746	--
2a. Monetary financial assets (including cash on hand, bank deposits)	11.905	1.035	2.223	17
2b. Other monetary assets	--	--	--	--
3. Other	239.730	67.249	823	13
<b>4. Current assets (1+2+3)</b>	<b>322.597</b>	<b>73.957</b>	<b>16.792</b>	<b>30</b>
5. Trade receivables	--	--	--	--
6a. Monetary financial assets	--	--	--	--
6b. Non-monetary financial assets	--	--	--	--
7. Other	1.107	179	129	--
<b>8. Non-current assets (5+6+7)</b>	<b>1.107</b>	<b>179</b>	<b>129</b>	<b>--</b>
<b>9. Total assets (4+8)</b>	<b>323.704</b>	<b>74.136</b>	<b>16.921</b>	<b>30</b>
10. Trade payables	(26.153)	(5.676)	(1.655)	(39)
11. Financial liabilities	(512.115)	(98.400)	(44.698)	--
12a. Other monetary liabilities	(186.428)	(49.607)	(3.192)	(9)
12b. Other non-monetary liabilities	(3.928)	(967)	(142)	--
<b>13. Short term liabilities (10+11+12)</b>	<b>(728.624)</b>	<b>(154.650)</b>	<b>(49.687)</b>	<b>(48)</b>
14. Trade payables	--	--	--	--
15. Financial liabilities	(6.335)	--	(1.707)	--
16a. Other monetary liabilities	--	--	--	--
16b. Other non-monetary liabilities	--	--	--	--
<b>17. Long term liabilities (14+15+16)</b>	<b>(6.335)</b>	<b>--</b>	<b>(1.707)</b>	<b>--</b>
<b>18. Total liabilities (13+17)</b>	<b>(734.959)</b>	<b>(154.650)</b>	<b>(51.394)</b>	<b>(48)</b>
<b>19. Net position of off-statement of financial position derivate instruments (19a+19b)</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>19a. Total hedged assets</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>19b. Total hedged liabilities</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>20. Net statement of financial position</b>	<b>(411.255)</b>	<b>(80.514)</b>	<b>(34.473)</b>	<b>(17)</b>
<b>21. Net statement of monetary items (=1+2a+5+6a+10+11+12a+14+15+16a)</b>	<b>(648.164)</b>	<b>(146.975)</b>	<b>(35.283)</b>	<b>(31)</b>

\* TL equivalent

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 29 Financial instruments – Fair values and risk management (continued)

#### Sensitivity analysis

A 10% strengthening/weakening of the TL against the other currencies below would have increased/ (decreased) the comprehensive income and profit/loss (excluding the tax effect) as of 31 December 2017 and 2016 as follows

31 December 2017	Profit / (Loss)	
	Weakening of TL	Strengthening of TL
<b>Increase/(decrease) 10% of US Dollar parity</b>		
1-US Dollar net asset / liability	(4.150)	4.150
2-Hedged portion of US Dollar amounts(-)		
<b>3-Net effect of US Dollar (1+2)</b>	<b>(4.150)</b>	<b>4.150</b>
<b>Increase/(decrease) 10% of EUR parity</b>		
4-EUR net asset / liability	(10.827)	10.827
5-Hedged portion of EUR amounts(-)	--	--
<b>6-Net effect of EUR (4+5)</b>	<b>(10.827)</b>	<b>10.827</b>
<b>Increase/(decrease) 10% of other parities</b>		
7-Other foreign currency net asset / liability	6	(6)
8-Hedged portion of other foreign currency amounts(-)	--	--
<b>9-Net effect of other foreign currencies (7+8)</b>	<b>6</b>	<b>(6)</b>
<b>TOTAL (3+6+9)</b>	<b>(14.971)</b>	<b>14.971</b>
<b>31 December 2016</b>		
	Profit / (Loss)	
	Weakening of TL	Strengthening of TL
<b>Increase/(decrease) 10% of US Dollar parity</b>		
1-US Dollar net asset / liability	(28.335)	28.335
2-Hedged portion of US Dollar amounts(-)	--	--
<b>3-Net effect of US Dollar (1+2)</b>	<b>(28.335)</b>	<b>28.335</b>
<b>Increase/(decrease) 10% of EUR parity</b>		
4-EUR net asset / liability	(12.789)	12.789
5-Hedged portion of EUR amounts(-)	--	--
<b>6-Net effect of EUR (4+5)</b>	<b>(12.789)</b>	<b>12.789</b>
<b>Increase/(decrease) 10% of other parities</b>		
7-Other foreign currency net asset / liability	(2)	2
8-Hedged portion of other foreign currency amounts(-)	--	--
<b>9-Net effect of other foreign currencies (7+8)</b>	<b>(2)</b>	<b>2</b>
<b>TOTAL (3+6+9)</b>	<b>(41.126)</b>	<b>41.126</b>

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 29 Financial instruments – Fair values and risk management (continued)

#### Interest rate risk

The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprise at different times or in differing amounts. In the case of floating rate assets and liabilities the Group is also exposed to basis risk, which is the difference in reprising characteristics of the various floating rate indices, such as six months Libor and different types of interest. Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Group's business strategies.

#### Profile

As at 31 December, the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	2017	2016
<b>Fixed rate instruments</b>		
Financial assets	258.148	231.139
Financial liabilities	689.250	765.163

#### Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss and the Group does not designate derivatives (interest rate swaps) as hedging instruments under fair value hedge accounting model. Therefore, a change in interest rate as of the reporting date would not affect profit or loss and equity.

#### Capital management

The Group's objectives when managing capital include:

- to comply with the capital requirements required by the regulators of the financial markets where the Group operates;
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders.

The Group's debt to equity ratio at the end of year was as follows:

	2017	2016
Total liabilities	835.491	870.942
Less: cash and cash equivalents	(11.351)	(12.958)
Less: deferred revenue	(2.955)	(1.254)
<b>Net debt</b>	<b>821.185</b>	<b>856.730</b>
Equity	551.846	207.699
<b>Debt to equity ratio at 31 December</b>	<b>1,49</b>	<b>4,12</b>

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements as at and for the Year Ended 31 December 2017

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

### 29 Financial instruments – Fair values and risk management (continued)

#### Fair value information

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or in its absence, the most advantageous market to which the Group has access at that date.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted market price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Loans and receivables</b>				
Cash and cash equivalents	11.351	11.351	12.958	12.958
Trade receivables	212.104	212.104	147.202	147.202
Other receivables	260.610	260.610	233.209	233.209
<b>Total loans and receivables</b>	<b>484.065</b>	<b>484.065</b>	<b>393.369</b>	<b>393.369</b>
<b>Other financial liabilities</b>				
Loans and borrowings	680.202	680.202	566.867	566.867
Trade payables	94.137	94.137	65.475	65.475
Other payables	11.877	11.877	200.936	200.936
<b>Total other financial liabilities</b>	<b>786.216</b>	<b>786.216</b>	<b>833.278</b>	<b>833.278</b>

The Group estimated that the carrying values of financial assets and liabilities approximate their fair values due to mainly their short-term nature.

### 30 Subsequent events

None.

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Consolidated Statement of Financial Position As at 31 December 2017

(Amounts expressed in thousands of USD unless otherwise stated.)

### Appendix I

	31 December 2017	31 December 2016
<b>Current assets</b>		
Cash and cash equivalents	3.009	3.682
Trade receivables	56.232	41.828
<i>Due from related parties</i>	52	28
<i>Due from third parties</i>	56.180	41.800
Other receivables	69.069	66.234
<i>Due from related parties</i>	29	2.675
<i>Due from third parties</i>	69.040	63.559
Inventories	65.123	47.177
Prepayments	9.226	4.314
Current tax assets	1.316	1.049
Other current assets	7.118	4.425
<b>Subtotal</b>	<b>211.093</b>	<b>168.709</b>
Assets held for sale	9.669	9.637
<b>Total current assets</b>	<b>220.762</b>	<b>178.346</b>
<b>Non- current assets</b>		
Other receivables	24	34
<i>Due from third parties</i>	24	34
Financial investments	1.186	1.201
Investment property	5.869	6.489
Property, plant and equipment	119.605	100.121
Intangible assets	324	557
<i>Other intangible assets</i>	324	557
Prepayments	2.317	924
Deferred tax assets	17.721	18.830
<b>Total non-current assets</b>	<b>147.046</b>	<b>128.156</b>
<b>Total assets</b>	<b>367.808</b>	<b>306.502</b>

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Consolidated Statement of Financial Position (continued)

As at 31 December 2017

(Amounts expressed in thousands of USD unless otherwise stated.)

### Appendix I

	31 December 2017	31 December 2016
<b>Current liabilities</b>		
Short term loans and borrowings	54.610	69.444
Short term portion of long term loans and borrowings	82.974	89.834
Trade payables	24.958	18.605
<i>Due to related parties</i>	136	545
<i>Due to third parties</i>	24.822	18.060
Payables related to employee benefits	1.904	980
Other payables	3.149	57.097
<i>Due to related parties</i>	2.399	56.347
<i>Due to third parties</i>	750	750
Deferred revenue	783	356
Short term provisions	1.891	1.255
<i>Short term employee benefits</i>	988	884
<i>Other short term provisions</i>	903	371
Other short term liabilities	1.081	1.005
<b>Subtotal</b>	<b>171.350</b>	<b>238.576</b>
Liabilities held for sale	3.313	2.686
<b>Total current liabilities</b>	<b>174.663</b>	<b>241.262</b>
<b>Non-current liabilities</b>		
Long term loans and borrowings	42.749	1.800
Long term provisions	4.092	4.418
<i>Long term employee benefits</i>	4.092	4.418
<b>Total non-current liabilities</b>	<b>46.841</b>	<b>6.218</b>
<b>Total liabilities</b>	<b>221.504</b>	<b>247.480</b>
<b>EQUITY</b>		
<b>Equity attributable to the owners of the Company</b>		
Share capital	183.676	94.901
Legal reserves	13.211	10.970
Other comprehensive income that will never be reclassified to profit or loss	(584)	(535)
Other comprehensive income that is or may be reclassified to profit or loss	(52.268)	(49.190)
Accumulated losses	(1.489)	(284)
Profit for the year	1.691	1.036
<b>Total equity attributable to the owners of the Company</b>	<b>144.237</b>	<b>56.898</b>
<b>Total non-controlling interests</b>	<b>2.067</b>	<b>2.124</b>
<b>Total equity</b>	<b>146.304</b>	<b>59.022</b>
<b>Total equity and liabilities</b>	<b>367.808</b>	<b>306.502</b>

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Consolidated Statement of Profit or Loss and Other Comprehensive Income For the Year Ended 31 December 2017

(Amounts expressed in thousands of USD unless otherwise stated.)

### Appendix I

	2017	2016
Revenue	167.761	139.265
Cost of sales	(108.333)	(93.676)
<b>Gross profit</b>	<b>59.428</b>	<b>45.589</b>
General and administrative expenses	(10.044)	(9.127)
Selling, marketing and distribution expenses	(11.492)	(11.847)
Research and development expenses	(4.306)	(3.132)
Other income	9.901	45.315
Other expenses	(2.751)	(1.912)
<b>Operating profit</b>	<b>40.736</b>	<b>64.886</b>
Gains from investing activities	327	1.073
Losses from investing activities	(229)	(1.137)
<b>Operating profit before finance costs</b>	<b>40.834</b>	<b>64.822</b>
Finance income	4.566	7.512
Finance costs	(43.531)	(75.212)
<b>Net finance costs</b>	<b>(38.965)</b>	<b>(67.700)</b>
<b>Profit/Loss before tax from continuing operations</b>	<b>1.869</b>	<b>(2.878)</b>
Current tax expense	(383)	--
Deferred tax benefit	147	2.209
<b>Total tax benefit</b>	<b>(236)</b>	<b>2.209</b>
<b>Profit for the year from continuing operations</b>	<b>1.633</b>	<b>(669)</b>
<b>Profit for the period from discontinued operations</b>	<b>--</b>	<b>2.054</b>
<b>Profit for the year</b>	<b>1.633</b>	<b>1.385</b>
<b>Total profit attributable to:</b>		
Owners of the Company	1.691	1.036
Non-controlling interests	(58)	349
<b>Net profit for the year</b>	<b>1.633</b>	<b>1.385</b>

# ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## Consolidated Statement of Profit or Loss and Other Comprehensive Income For the Year Ended 31 December 2017

(Amounts expressed in thousands of USD unless otherwise stated.)

### Appendix I

	2017	2016
<b>Other comprehensive income</b>		
<b>Items that will never be reclassified to profit or loss</b>		
Defined benefit obligation actuarial differences	(61)	(542)
Tax on defined benefit obligation actuarial differences	12	108
<b>Items that are or may be reclassified to profit or loss</b>		
Foreign currency translation differences for foreign operations and reporting currency translation differences	(3.078)	(10.841)
<b>Total other comprehensive income</b>	<b>(3.127)</b>	<b>(11.275)</b>
<b>Total comprehensive income</b>	<b>(1.494)</b>	<b>(9.890)</b>
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	(1.436)	(10.238)
Non-controlling interests	(58)	348
<b>Total comprehensive income</b>	<b>(1.494)</b>	<b>(9.890)</b>





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