VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS AT 1 JANUARY – 31 DECEMBER 2018 TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

(ORIGINALLY ISSUED IN TURKISH)

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VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
BALANCE SHEETS AS OF 31 DECEMBER 2018 AND 31 DECEMBER 2017

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

	Footnotes	Audited 31 December 2018	Audited 31 December 2017
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	4	120.847	73.679
Trade Receivables		1.480.213	1.045.883
Trade Receivables Due From Related Parties	6	1.476.111	1.038.802
Trade Receivables Due From Unrelated Parties	7	4.102	7.081
Other Receivables		867.676	645.195
Other Receivables Due From Related Parties	6	703.884	511.898
Other Receivables Due From Unrelated Parties	8	163.792	133.297
Derivative Financial Assets		2.028	4.009
Derivative Financial Assets Held for Trading	27	2.028	1.759
Derivative Financial Assets Held for Hedging	27	-	2.250
Inventories	9	579.054	500.180
Prepayments		12.623	13.803
Prepayments to Unrelated Parties	10	12.623	13.803
Current Tax Assets	25	-	1.250
Other Current Assets		830	5.941
Other Current Assets Due From Unrelated Parties	17	830	5.941
TOTAL CURRENT ASSETS		**3.063.271**	**2.289.940**

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

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
BALANCE SHEETS AS OF 31 DECEMBER 2018 AND 31 DECEMBER 2017

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

	Footnotes	Audited 31 December 2018	Audited 31 December 2017
NON-CURRENT ASSETS			
Property, Plant and Equipments		1.435.364	553.202
Land and Premises	11	192.824	39.063
Land Improvements	11	40.833	844
Buildings	11	438.634	40.838
Machinery and Equipments	11	692.549	367.398
Vehicles	11	221	249
Fixtures and Fittings	11	27.102	17.689
Leasehold Improvements	11	5.713	4.070
Construction in Progress	11	37.488	83.051
Intangible Assets and Goodwill		146.867	118.214
Other Rights	12	69	19
Capitalized Development Costs	12	137.167	109.806
Other Intangible Assets	12	9.631	8.389
Prepayments		39.590	62.952
Prepayments to Unrelated Parties	10	39.590	62.952
Deferred Tax Asset	25	-	5.681
TOTAL NON-CURRENT ASSETS		**1.621.821**	**740.049**
TOTAL ASSETS		**4.685.092**	**3.029.989**

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
BALANCE SHEETS AS OF 31 DECEMBER 2018 AND 31 DECEMBER 2017

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

	Footnotes	Audited 31 December 2018	Audited 31 December 2017
LIABILITIES			
CURRENT LIABILITIES			
Current Borrowings		366.515	281.926
Current Borrowings From Unrelated Parties		366.515	281.926
Bank Loans	5	365.864	281.476
Leasing Debts	5	651	450
Current Portion of Non-current Borrowings		287.078	70.051
Current Portion of Non-current Borrowings from Unrelated Parties		287.078	70.051
Bank Loans	5	287.078	70.051
Trade Payables		1.901.077	1.242.281
Trade Payables to Related Parties	6	50.250	40.744
Trade Payables to Unrelated Parties	7	1.850.827	1.201.537
Employee Benefit Obligations	16	31.196	26.671
Other Payables		130.423	64.507
Other Payables to Related Parties	6	130.423	64.507
Derivative Financial Liabilities		20.129	9.977
Derivative Financial Liabilities Held for Trading	27	19.314	5.993
Derivative Financial Liabilities Held for Hedging	27	815	3.984
Current Tax Liabilities, Current	25	716	-
Current Provisions		3.190	2.197
Other Current Provisions	14	3.190	2.197
Other Current Liabilities		6.802	8.697
Other Current Liabilities to Unrelated Parties	17	6.802	8.697
TOTAL CURRENT LIABILITIES		**2.747.126**	**1.706.307**

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
BALANCE SHEETS AS OF 31 DECEMBER 2018 AND 31 DECEMBER 2017

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

	Footnotes	Audited 31 December 2018	Audited 31 December 2017
NON-CURRENT LIABILITIES			
Long Term Borrowings		111	179.514
Long Term Borrowings From Unrelated Parties		111	179.514
Bank Loans	5	-	178.968
Leasing Debts	5	111	546
Trade Payables		14.531	1.959
Trade Payables to Unrelated Parties	7	14.531	1.959
Other Payables		-	98.323
Other Payables to Related Parties	6	-	98.323
Non-current Provisions		38.713	31.749
Non-current Provisions for Employee Benefits	16	38.713	31.749
Deferred Tax Liabilities	25	73.036	-
TOTAL NON-CURRENT LIABILITIES		**126.391**	**311.545**
TOTAL LIABILITIES		**2.873.517**	**2.017.852**

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
BALANCE SHEETS AS OF 31 DECEMBER 2018 AND 31 DECEMBER 2017

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

	Footnotes	Audited 31 December 2018	Audited 31 December 2017
EQUITY			
Equity Attributable to Owners of Parent		**1.811.575**	**1.012.137**
Issued Capital	18	190.000	190.000
Inflation Adjustments on Capital	18	9.734	9.734
Share Premium (Discount)	18	109.031	109.031
Other Accumulated Comprehensive Income (Loss) that will not be Reclassified in Profit or Loss		409.958	(6.203)
Gains (Losses) on Revaluation and Remeasurement		409.958	(6.203)
Increases (Decreases) on Revaluation of Property, Plant and Equipment		417.527	-
Gains (Losses) on Remeasurements of Defined Benefit Plans	24	(7.569)	(6.203)
Other Accumulated Comprehensive Income (Loss) that will be Reclassified in Profit or Loss		(636)	(1.352)
Gains (Losses) on Hedge		(636)	(1.352)
Gains (Losses) on Cash Flow Hedges	24	(636)	(1.352)
Restricted Reserves Appropriated From Profits		118.206	111.627
Legal Reserves	18	118.206	111.627
Prior Years' Profits or Losses	18	352.721	304.066
Current Period Net Profit Or Loss		622.561	295.234
TOTAL EQUITY		**1.811.575**	**1.012.137**
TOTAL LIABILITIES AND EQUITY		**4.685.092**	**3.029.989**

Financial statements for the period 1 January – 31 December 2018 were approved by the Board of Directors of Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. on 20 February 2019. General Assembly and specified regulatory bodies have the right to make amendments to statutory financial statements after issue.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2018 AND 2017

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

	Footnotes	Audited 1 January - 31 December 2018	Audited 1 January - 31 December 2017
PROFIT OR LOSS			
Revenue	19	5.693.973	3.857.756
Cost of Sales	19	(4.781.608)	(3.363.747)
GROSS PROFIT (LOSS) FROM COMMERCIAL OPERATIONS		**912.365**	**494.009**
GROSS PROFIT (LOSS)		**912.365**	**494.009**
General Administrative Expenses	21	(59.337)	(48.918)
Marketing Expenses	21	(79.761)	(53.931)
Research and Development Expense	21	(45.490)	(36.959)
Other Income from Operating Activities	22	487.908	325.713
Other Expenses from Operating Activities	22	(622.385)	(195.302)
PROFIT (LOSS) FROM OPERATING ACTIVITIES		**593.300**	**484.612**
PROFIT (LOSS) BEFORE FINANCING INCOME (EXPENSE)		**593.300**	**484.612**
Finance Income	23	607.599	128.567
Fınance Costs	23	(579.132)	(312.605)
PROFIT (LOSS) FROM CONTINUING OPERATIONS, BEFORE TAX		**621.767**	**300.574**
Tax (Expense) Income, Continuing Operations		794	(5.340)
Current Period Tax (Expense) Income	25	(5.512)	(3.164)
Deferred Tax (Expense) Income	25	6.306	(2.176)
PROFIT (LOSS) FROM CONTINUING OPERATIONS		**622.561**	**295.234**
PROFIT (LOSS)		**622.561**	**295.234**
Earnings Per Share with a TL 1 of Par Value	26	**3,28**	**1,55**

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

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2018 AND 2017

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

		Audited 1 January - 31 December 2018	Audited 1 January - 31 December 2017
OTHER COMPREHENSIVE INCOME			
Other Comprehensive Income that will not be Reclassified to Profit or Loss	24	416.161	(2.890)
Gains (Losses) on Revaluation of Property, Plant and Equipment		502.688	-
Gains (Losses) on Remeasurements of Defined Benefit Plans		(1.707)	(3.613)
Taxes Relating to Components of Other Comprehensive Income that will not be Reclassified to Profit or Loss		(84.820)	723
Taxes Relating to Gains (Losses) on Revaluation of Property, Plant and Equipment		(85.161)	-
Taxes Relating to Remeasurements of Defined Benefit Plans		341	723
Other Comprehensive Income that will be Reclassified to Profit or Loss	24	716	(20.138)
Other Comprehensive Income (Loss) Related with Cash Flow Hedges		918	(25.216)
Gains (Losses) on Cash Flow Hedges		918	(25.216)
Taxes Relating to Components of Other Comprehensive Income that will be Reclassified to Profit or Loss		(202)	5.078
Taxes Relating to Cash Flow Hedges		(202)	5.078
OTHER COMPREHENSIVE INCOME (LOSS)		**416.877**	**(23.028)**
TOTAL COMPREHENSIVE INCOME (LOSS)		**1.039.438**	**272.206**

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2018 AND 2017

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

	Issued Capital	Inflation Adjustments on Capital	Share Premiums or Discounts	Increases (Decreases) on Revaluation of Property, Plant and Equipment	Gains (Losses) on Remeasure-ments of Defined Benefit Plans	Gains (Losses) on Revaluations and Remeasurements	Other Accumulated Compre-hensive Income that will not be Reclassified in Profit or Loss	Cash Flow Hedges	Reserve Of Gains or Losses on Hedge	Other Accumulated Compre-hensive Income that will be Reclassified in Profit or Loss	Restricted Reserves Appropriated From Profits	Prior Years' Profits or Losses	Net Profit or Loss	Retained Earnings	Equity attributable to owners of parent	Equity
Previous Period																
1 January -31 December 2017																
Equity at Beginning of Period	**190.000**	**9.734**	**109.031**	**-**	**(3.313)**	**(3.313)**	**(3.313)**	**18.786**	**18.786**	**18.786**	**77.019**	**193.669**	**325.005**	**518.674**	**919.931**	**919.931**
Transfers	-	-	-	-	-	-	-	-	-	-	34.608	290.397	(325.005)	(34.608)	-	-
Total Comprehensive Income (Loss)	-	-	-	-	(2.890)	(2.890)	(2.890)	(20.138)	(20.138)	(20.138)	-	-	295.234	295.234	272.206	272.206
Profit (Loss)	-	-	-	-	-	-	-	-	-	-	-	-	295.234	295.234	295.234	295.234
Other Comprehensive Income (Loss)	-	-	-	-	(2.890)	(2.890)	(2.890)	(20.138)	(20.138)	(20.138)	-	-	-	-	(23.028)	(23.028)
Dividends Paid	-	-	-	-	-	-	-	-	-	-	-	(180.000)	-	(180.000)	(180.000)	(180.000)
Equity at End of Period	**190.000**	**9.734**	**109.031**	**-**	**(6.203)**	**(6.203)**	**(6.203)**	**(1.352)**	**(1.352)**	**(1.352)**	**111.627**	**304.066**	**295.234**	**599.300**	**1.012.137**	**1.012.137**
Current Period																
1 January -31 December 2018																
Equity at Beginning of Period	**190.000**	**9.734**	**109.031**	**-**	**(6.203)**	**(6.203)**	**(6.203)**	**(1.352)**	**(1.352)**	**(1.352)**	**111.627**	**304.066**	**295.234**	**599.300**	**1.012.137**	**1.012.137**
Transfers	-	-	-	-	-	-	-	-	-	-	6.579	288.655	(295.234)	(6.579)	-	-
Total Comprehensive Income (Loss)	-	-	-	417.527	(1.366)	416.161	416.161	716	716	716	-	-	622.561	622.561	1.039.438	1.039.438
Profit (Loss)	-	-	-	-	-	-	-	-	-	-	-	-	622.561	622.561	622.561	622.561
Other Comprehensive Income (Loss)	-	-	-	417.527	(1.366)	416.161	416.161	716	716	716	-	-	-	-	416.877	416.877
Dividends Paid	-	-	-	-	-	-	-	-	-	-	-	(240.000)	-	(240.000)	(240.000)	(240.000)
Equity at End of Period	**190.000**	**9.734**	**109.031**	**417.527**	**(7.569)**	**409.958**	**409.958**	**(636)**	**(636)**	**(636)**	**118.206**	**352.721**	**622.561**	**975.282**	**1.811.575**	**1.811.575**

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

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
STATEMENTS OF CASH FLOWS FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2018 AND 2017

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

	Footnotes	Audited 1 January - 31 December 2018	Audited 1 January - 31 December 2017
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		**1.082.870**	**655.672**
Profit (Loss)		622.561	295.234
Profit (Loss) from Continuing Operations		622.561	295.234
Adjustments to Reconcile Profit (Loss)		**310.192**	**170.287**
Adjustments for Depreciation and Amortisation Expense	11	166.404	111.746
Adjustments for Impairment Loss (Reversal of Impairment Loss)		1.019	907
Adjustments for Impairment Loss (Reversal of Impairment Loss) of Inventories	9	1.019	907
Adjustments for Provisions		11.520	11.270
Adjustments for (Reversal of) Provisions Related with Employee Benefits	16	10.527	10.693
Adjustments for (Reversal of) Lawsuit and/or Penalty Provisions	14	993	577
Adjustments for Interest (Income) Expenses		(88.094)	26.259
Adjustments for Interest Income	23	(139.876)	(21.605)
Adjustments for Interest Expense	23	51.782	47.864
Adjustments for Unrealised Foreign Exchange Losses (Gains)		217.166	43.440
Adjustments for Fair Value Losses (Gains)		13.051	(20.697)
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments		13.051	(20.697)
Adjustments for Tax (Income) Expenses		(794)	5.340
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		(1.005)	(478)
Adjustments for Losses (Gains) Arised From Sale of Tangible Assets		(1.005)	(478)
Other Adjustments to Reconcile Profit (Loss)	4	(9.075)	(7.500)

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
STATEMENTS OF CASH FLOWS FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2018 AND 2017

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

	Footnotes	Audited 1 January - 31 December 2018	Audited 1 January - 31 December 2017
Changes in Working Capital		**158.933**	**204.766**
Adjustments for Decrease (Increase) in Trade Accounts Receivable		(434.330)	140.161
Decrease (Increase) in Trade Accounts Receivables from Related Parties	6	(437.309)	144.005
Decrease (Increase) in Trade Accounts Receivables from Unrelated Parties	7	2.979	(3.844)
Adjustments for Decrease (Increase) in Other Receivables Related with Operations		(30.495)	(55.199)
Decrease (Increase) in Other Unrelated Party Receivables Related with Operations	8	(30.495)	(55.199)
Adjustments for Decrease (Increase) in Inventories	9	(79.893)	(256.641)
Decrease (Increase) in Prepaid Expenses	10	24.542	(23.948)
Adjustments for Increase (Decrease) in Trade Accounts		671.368	403.766
Increase (Decrease) in Trade Accounts Payables to Related Parties	6	9.506	17.296
Increase (Decrease) in Trade Accounts Payables to Unrelated Parties	7	661.862	386.470
Increase (Decrease) in Employee Benefit Liabilities	16	4.525	2.908
Other Adjustments for Other Increase (Decrease) in Working Capital		3.216	(6.281)
Decrease (Increase) in Other Assets Related with Operations	17	5.111	(4.729)
Increase (Decrease) in Other Payables Related with Operations	17	(1.895)	(1.552)
Cash Flows from (used in) Operations		**1.091.686**	**670.287**
Payments Related with Provisions for Employee Benefits	16	(5.270)	(7.016)
Income Taxes refund (Paid)	25	(3.546)	(7.599)

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
STATEMENTS OF CASH FLOWS FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2018 AND 2017

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

	Footnotes	Audited 1 January - 31 December 2018	Audited 1 January - 31 December 2017
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		**(765.512)**	**(610.975)**
Proceeds from Sales of Property, Plant, Equipment and Intangible Assets		1.299	3.280
Proceeds from Sales of Property, Plant and Equipment		1.299	3.280
Purchase of Property, Plant, Equipment and Intangible Assets		(574.825)	(360.969)
Purchase of Property, Plant and Equipment	11	(524.893)	(318.614)
Purchase of Intangible Assets	12	(49.932)	(42.355)
Cash Advances and Loans Made to Other Parties		(191.986)	(253.286)
Cash Advances and Loans Made to Related Parties	6	(191.986)	(253.286)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		**(279.265)**	**8.653**
Proceeds from Borrowings		893.840	653.271
Proceeds from Loans		894.074	652.275
Proceeds from Other Financial Borrowings		(234)	996
Repayments of Borrowings		(969.226)	(392.977)
Loan Repayments		(969.226)	(392.977)
Decrease in Other Payables to Related Parties		(64.818)	(50.987)
Dividends Paid	6	(240.000)	(180.000)
Interest Paid		(38.937)	(42.259)
Interest Received		139.876	21.605
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		**38.093**	**53.350**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**38.093**	**53.350**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	65.190	11.840
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**103.283**	**65.190**

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

NOTE 1 – COMPANY'S ORGANISATION AND NATURE OF OPERATIONS

Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. (the "Company" or "Vestel Beyaz Eşya") was incorporated in 1997 under the Turkish Commercial Code and its head office is located at Levent 199, Büyükdere Caddesi No: 199, 34394 Şişli / İstanbul.

The Company started its operations in 1999 and produces refrigerators, room air conditioning units, washing machines, cookers, dishwashers and water heaters. The Company's production facilities occupy 412.000 square meters of enclosed area located in Manisa Organized Industrial Zone on total area of 483.000 square meters.

The Company is a member of Vestel Group of Companies which are under the control of the Zorlu Family. The Company performs its foreign sales and domestic sales via Vestel Ticaret A.Ş. which is also a member of Vestel Group of Companies.

The Company is registered to Capital Market Board and its shares have been quoted to Borsa Istanbul ("BİST") since 21 April 2006.

As of 31 December 2018, the number of personnel employed was 7.401 (31 December 2017: 6.406).

As of balance sheet dates, the shareholders of the Company and their percentage shareholdings were as follows:

	Shareholding %
Vestel Elektronik Sanayi ve Ticaret A.Ş.	95,18
Other shareholders	4,82
	100,00

As of 31 December 2018, 59.800.000 shares of the Company have been quoted at the Borsa Istanbul ("BİST") (31,5 % of its share capital; 31 December 2017: 31,5 %).

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

2.1.1 Statement of compliance

The accompanying financial statements are prepared in accordance with the Communiqué Serial II, No: 14.1, "Principals of Financial Reporting in Capital Markets" published in the Official Gazette numbered 28676 on 13 June 2013. According to the article 5 of the Communiqué, financial statements are prepared in accordance with Turkish Accounting Standards / Turkish Financial Reporting Standards ("TAS" / "TFRS") and its addendum and interpretations ("IFRIC") issued by the Public Oversight Accounting and Auditing Standards Authority ("POAASA") Turkish Accounting Standards Board.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

The Company maintains its accounting records and prepares its statutory financial statements in accordance with the Turkish Commercial Code ("TCC"), tax legislation and the uniform chart of accounts issued by the Ministry of Finance. The financial statements, except for land, buildings and land improvements and the financial assets and liabilities presented with their fair values, are maintained under historical cost conversion in TL. These financial statements are based on the statutory records which are maintained under historical cost conversion, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with the TAS/TFRS.

With the decision 11/367 taken on 17 March 2005, the CMB announced that, effective from 1 January 2005, the application of inflation accounting is no longer required for the companies operating in Turkey and preparing their financial statements in accordance with CMB Financial Reporting Standards. Accordingly, TAS 29, "Financial Reporting in Hyperinflationary Economies" issued by the IASB, has not been applied in the financial statements for the accounting year commencing from 1 January 2005.

2.2 Comparative information and restatement of prior period financial statements

Financial statements of the Company have been prepared comparatively with the preceding financial period, in order to enable determination of trends in financial position and performance. Comparative figures are reclassified, where necessary, to conform to changes in presentation in the financial statements.

Transition to TFRS 15 "Revenue from contracts with customers":

The Company has applied TFRS 15 " Revenue from contracts with customers", which has replaced TMS 18, by using the cumulative effect method on the transition date. In accordance with this method, The Company has not needed to restate the prior years' financial statements. Therefore, prior year financial statements are not restated and these financial statements are presented in accordance with TMS 18. The Company does not have any cumulative effect of the first time adoption that has to be recognized in retained earnings as of 1 January 2018.

Transition to TFRS 9 "Financial instruments":

The Company has applied TFRS 9 "Financial instruments" standard with the amendments including the classification, measurement, and the expected credit risk model as of 1 January 2018. The Company has accounted the effect of transition based on the simplified approach, therefore, prior year financial statements are not restated and these financial statements are presented in accordance with TMS 39. The Company does not have any cumulative effect of the first time adoption that has to be recognized in retained earnings as of 1 January 2018.

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

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

Changes regarding the classification of financial assets and liabilities in terms of TFRS 9 are summarised below.Related changes in classification do not result in changes in measurement of the financial assets and liabilities.

Financial Assets	**Prior classification under TAS 39**	**New classification under TFRS 9**
Cash and cash euqivalents	Loans and receivables	Amortised cost
Trade receivables	Loans and receivables	Amortised cost
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss
Other receivables	Loans and receivables	Amortised cost
Financial Liabilities	**Prior classification under TAS 39**	**New classification under TFRS 9**
Borrowings	Amortised cost	Amortised cost
Finance leases	Amortised cost	Amortised cost
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss
Trade payables	Amortised cost	Amortised cost

Disclosures related to impacts of IFRS 9 and IFRS 15 adoption:

Changes in IFRS 9 and IFRS 15 do not have any material impact on financial statements as of 31 December 2017. Impact of changes in IFRS 9 and IFRS 15 on financial statements as of 31 December 2018 as follows:

Impact on financial statements as of 31 December 2018

	Amounts before the adoption	**Impact of the adoption (*)**	**Amounts after the adoption**
Balance Sheet			
Inventories	565.612	13.442	579.054
Prepayments	26.065	(13.442)	12.623
Profit or Loss and Other Comprehensive Income			
Sales	5.629.953	64.020	5.693.973
Cost of Sales	(4.699.620)	(81.988)	(4.781.608)
Other Incomes from Operating Activities	551.928	(64.020)	487.908
Other Expenses from Operating Activities	(704.373)	81.988	(622.385)

(*) Impact of adjustments on forward purchases and sales

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.3 Restatement and errors in the accounting estimates

Major changes in accounting policies are applied retrospectively and any major accounting errors that have been detected are corrected and the financial statements of the previous period are restated. Changes in accounting policies resulting from the initial implementation of a new standard, if any, are implemented retrospectively or prospectively in accordance with the transition provisions. If changes in accounting estimates are related to only one period, they are recognized in the period when changes are applied; if changes in estimates are related to future periods, they are recognized both in the period where the change is applied and future periods prospectively.

2.4. Amendments in Turkey Financial Reporting Standards

a) New standards, amendments and interpretations issued and effective for the financial year beginning 31 December 2018:

- **IFRS 9 'Financial instruments'** effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

- **IFRS 15 'Revenue from contracts with customers',** effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

- **Amendments to IFRS 2, 'Share based payments'** on clarifying how to account for certain types of share-based payment transactions; effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

- **Annual improvements 2014-2016,** effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:

  - IFRS 1, ‘First time adoption of IFRS’, regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19 and IFRS 10.
  - IAS 28, ‘Investments in associates and joint venture’ regarding measuring an associate or joint venture at fair value.

- **IFRIC 22, ‘Foreign currency transactions and advance consideration’,** effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

b) Standards, amendments and interpretations that are issued but not effective as at 31 December 2018:

- **Amendment to IFRS 9, ‘Financial instruments’;** effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.

- **IFRS 16, ‘Leases’;** effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15‘Revenue from Contracts with Customers’ is also applied. This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a ‘right of use asset’ for virtually all lease contracts.

- **IFRIC 23, ‘Uncertainty over income tax treatments’;** effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 ‘Income taxes’, are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 ‘Provisions, contingent liabilities and contingent assets’, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

- **Annual improvements 2015-2017,** effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:
  - IFRS 3, 'Business combinations', the Company remeasures it's previously held interest in a joint operation when it obtains control of the business.
  - IFRS 11, 'Joint arrangements', the Company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
  - IAS 12, 'Income taxes' the Company accounts for all income tax consequences of dividend payments in the same way.
  - IAS 23, 'Borrowing costs' the Company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.
- **Amendments to IAS 19, 'Employee benefits'** on plan amendment, curtailment or settlement', effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:
  - use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and
  - recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

- **Amendments to IAS 1 and IAS 8 on the definition of material;** effective from Annual periods beginning on or after 1 January 2020. These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:
    - i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
    - ii) clarify the explanation of the definition of material; and
    - iii) incorporate some of the guidance in IAS 1 about immaterial information.

- **Amendments to IFRS 3 - definition of a business;** effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

The Company, will assess the impact of amendments disclosed above and apply as of effective date.

2.5. Summary of significant accounting policies

2.5.1 Revenue

The Company recognizes revenue in accordance with IFRS 15 "Revenue from contracts with customers" standard by applying the following five step model:

- Identification of customer contracts
- Identification of performance obligations
- Determination of transaction price in the contract
- Allocation of price to performance obligations
- Recognition of revenue when the performance obligations are fulfilled.

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

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

(a) The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations,
(b) Company can identify each party's rights regarding the goods or services to be transferred,
(c) Company can identify the payment terms for the goods or services to be transferred,
(d) The contract has commercial substance,
(e) It is probable that Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due.

2.5.2 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory. Company uses moving weighted average method for costing.

Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale. When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in statement of income in the period the write-down or loss occurred.

When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the original write-down

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5.3 Property, plant and equipment

Land, land improvements and buildings are stated at fair value, based on valuations performed at 31 December 2018 by professional independent valuer Çelen Kurumsal Gayrimenkul Değerleme ve Danışmanlık A.Ş.

Property, plant and equipment except for land, land improvements and buildings acquired before 1 January 2005 are carried at cost in the equivalent purchasing power of TL as at 31 December 2004 and items acquired after 1 January 2005 are carried at cost, less accumulated amortization and impairment losses, if any.

Any revaluation increase arising on the revaluation of such land, land improvements and buildings is credited in equity to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land, land improvements and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. Depreciation on revalued land improvements and buildings is charged to profit or loss.

Each period, the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the statements of comprehensive income) and the depreciation based on the asset's original cost is transferred from revaluation reserves to the retained earnings.

Land is not depreciated. Plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Gains or losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and are included in the related income and expense accounts, as appropriate. On the disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to the retained earnings.

Subsequent costs such as repairs and maintenance or part replacement of plant and equipment are included in the asset's carrying value or recognized as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company. All other costs are charged to the statements of comprehensive income during the financial period in which they are incurred.

2.5.4 Intangible assets

a) Research and development costs

Research costs are recognized as expense in the period in which they are incurred. An intangible asset arising from development (or from the development phase of an internal project) if and only if an entity can demonstrate all of the following:

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

Other development costs are recognized as expense as incurred. If it is not possible to distinguish the research phase from the development phase of an internal project, the entity treats the expenditure on that project as if it were incurred in the research phase only.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

b) Rights and other intangible fixed assets

Rights and other intangible assets consist acquired computer software, computer software development costs and other identifiable rights. Rights and other intangible assets are recognized at their acquisition costs and are amortized on a straight line basis over their expected useful lives which are less than five years.

2.5.5 Financial instruments

a) Financial assets

The Company classifies its financial assets into the following specified categories: financial assets as at fair value through profit or loss, loans and receivables and available for sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets carried at amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, whose payments are fixed or predetermined, which are not actively traded and which are not derivative instruments are measured at amortized cost.

The Company's financial assets carried at amortized cost comprise "trade receivables" and "cash and cash equivalents" in the statement of financial position.

Company has applied simplified approach and used impairment matrix for the calculation of impairment on its receivables carried at amortized cost, since they do not comprise of any significant finance component. In accordance with this method, if any provision to the trade receivables as a result of a specific event, Company measures expected credit loss from these receivables by the life-time expected credit loss. The calculation of expected loss is performed based on the past experience of the Company and its expectations for the future indications.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

Financial assets carried at fair value

Assets that are held by the management for collection of contractual cash flows and for selling the financial assets are measured at their far value.

Impairment of financial assets

Impairment of the financial and contractual assets measured by using "Expected credit loss model". The impairment model applies for amortized financial and contractual assets.

Company has preferred to apply "simplified approach" for the recognition of impairment losses on trade receivables, carried at amortised cost and that do not comprise of any significant finance component (those with maturity less than 12 months). In accordance with the simplified approach, Company measures the loss allowances regarding its trade receivables at an amount equal to "lifetime expected credit losses" except incurred credit losses in which trade receivables are already impaired for a specific reason.

b) Financial liabilities

Financial liabilities are measured initially at fair value. Transaction costs which are directly related to the financial liability are added to the fair value.

c) Derivative financial instruments and hedge accounting

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The derivative instruments of the Group mainly consist of foreign exchange forward contracts. These derivative transactions, even though providing effective economic hedges under risk accounting, do not generally qualify for hedge accounting under the specific rules and are therefore treated as derivatives held for trading in the financial statements. The fair value changes for these derivatives are recognised in the consolidated profit or loss statement.

The hedging transactions of the Company that qualify for hedge accounting are accounted regarding to IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Group's financial statements.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

Cash flow hedges:

As long as a cash flow hedge meets the qualifying criteria, the hedging relationship shall be accounted for as follows:

(a) the separate component of equity associated with the hedged item (cash flow hedge reserve) is adjusted to the lower of the following (in absolute amounts):

(i) the cumulative gain or loss on the hedging instrument from inception of the hedge; and

(ii) the cumulative change in fair value (present value) of the hedged item (i.e. the present value of the cumulative change in the hedged expected future cash flows) from inception of the hedge.

(b) the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised in other comprehensive income.

(c) any remaining gain or loss on the hedging instrument is hedge ineffectiveness that shall be recognised in profit or loss.

2.5.6 Foreign currency transactions

Transactions in foreign currencies during the period are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary items denominated in foreign currencies are translated to TL at the rates prevailing on the balance sheet date. Exchange differences on foreign currency denominated monetary assets and liabilities are recognized in profit or loss in the period in which they arise except for the effective portion of the foreign currency hedge of net investments in foreign operations. On-monetary items which are denominated in foreign currency and measured with historical costs are translated using the exchange rates at the dates of initial transactions.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5.7 Provisions, contingent assets and liabilities

Provisions are recognized when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

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

2.5.8 Related parties

Shareholders, key management personnel and board members, their close family members and companies controlled, jointly controlled or significantly influenced by them and Zorlu Holding Company companies are considered and referred to as related parties.

2.5.9 Taxation on income

Tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items directly recognized in equity. In that case, tax is recognized in shareholders' equity.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Investment incentives that are conducive to payment of corporate taxes at reduced rates are subject to deferred tax calculation when there is reasonable assurance that the Company will benefit from the related incentive.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

2.5.10 Employee benefits

Employment termination benefits, as required by the Turkish Labor Law and the laws applicable in the countries where the subsidiaries operate, represent the estimated present value of the total reserve of the future probable obligation of the Company arising in case of the retirement of the employees. According to Turkish Labor Law and other laws applicable in Turkey, the Company is obliged to pay employment termination benefits to all personnel in cases of termination of employment without due cause, call for military service, be retired or death upon the completion of a minimum one year service. Provision for employment termination benefits as of 31 December 2018 is calculated in accordance with the assumptions used by the independent actuarial firm and is recorded in the financial statements at its net present value. Employment termination benefits are considered as being part of defined retirement benefit plan as per TAS 19. All actuarial gains and losses are recognized in statements of income.

2.5.11 Government grants

Government grants, including non-monetary grants at fair value, are recognized in financial statements when there is reasonable assurance that the entity will comply with the conditions attaching to them, and the grants will be received.

Incentives for research and development activities are recognized in financial statements when they are authorized by the related institutions.

2.5.12 Earnings per share

Earnings per share disclosed in the statement of income is determined by dividing net income attributable to equity holder of the parent by the weighted average number of such shares outstanding during the year concerned.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5.13 Statement of cash flows

In the statement of cash flows, cash flows are classified into three categories as operating, investment and financing activities. Cash flows from operating activities are those resulting from the Company's production and sales activities. Cash flows from investment activities indicate cash inflows and outflows resulting from property, plant and equipments and financial investments. Cash flows from financing activities indicate the resources used in financing activities and the repayment of these resources. Cash and cash equivalents comprise of cash in hand accounts, bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash with maturities equal or less than three months.

2.5.14 Offsetting

All items with significant amounts and nature, even with similar characteristics, are presented separately in the financial statements. Insignificant amounts are grouped and presented by means of items having similar substance and function. When the nature of transactions and events necessitate offsetting, presentation of these transactions and events over their net amounts or recognition of the assets after deducting the related impairment are not considered as a violation of the rule of non-offsetting. As a result of the transactions in the normal course of business, revenue other than sales are presented as net if the nature of the transaction or the event qualify for offsetting.

2.5.15 Events after the balance sheet date

Events after the balance sheet date, announcements related to net profit or even declared after other selective financial information has been publicly announced; include all events that take place between the balance sheet date and the date when balance sheet was authorized for issue.

In the case that events require a correction to be made on the balance sheet date, the Company makes the necessary corrections to the financial statements. Moreover, the events that occur subsequent to the balance sheet date and that do not require a correction to be made are disclosed in accompanying notes, where the decisions of the users of financial statements are affected.

2.5.16 Going concern

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

2.6. Critical accounting estimates and judgments

Preparation of financial statements requires the use of estimates and assumptions that may affect the amount of assets and liabilities recognized as of the balance sheet date, disclosures of contingent assets and liabilities and the amount of revenue and expenses reported. Although these estimates and assumptions rely on the Company management's best knowledge about current events and transactions, actual outcomes may differ from those estimates and assumptions. Significant estimates of the Company management are as follows:

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

i. Revaluation of lands, buildings and land improvements

Land, land improvements and buildings are stated at fair value, based on valuations performed at 31 December 2018 by professional independent valuer Çelen Kurumsal Gayrimenkul Değerleme ve Danışmanlık A.Ş. (Note 11).

As there were no recent similar buying/selling transactions nearby, revaluations of land were based on the method of reference comparison whereas revaluations of buildings and land improvements and machinery and equipment were based on the method of cost approach and based on the following valuation techniques and assumptions:

- Revaluations of land were based on the method of reference comparison whereas revaluations of buildings and land improvements were based on the method of cost approach, considering existing utilization of the aforementioned property, plant and equipments are consistent to the highest and best use approach.

- In the market reference comparison method, current market information was utilized, taking into consideration the comparable property in the market in recent past in the region, price adjustment was made within the framework of criteria that could affect market conditions, and accordingly an average m2 sale value was determined for the lands subject to the valuation. The similar pieces of land found were compared in terms of location, size, settlement status, physical conditions, real estate marketing firms were consulted for up-to-date valuation of the estate market, also, current information and experience of the professional valuation company was utilized.

- In the cost approach method, fair value of the buildings and land improvements was calculated by considering recent re-construction costs and related depreciation. In the cost approach method, above explained market reference comparison method was used in calculation of the land value, one of the components.

The carrying values of land, land improvements and buildings do not necessarily reflect the amounts that would result from the outcome of a sales transaction between independent parties.

As of initial recognition and as of balance sheet date, the Company performs impairment assessment for buildings and land improvements of which valuations are based on cost approach, accordance with the TAS 36 "Impairment of Assets", and no impairment indicator is identified.

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

NOTE 3 - SEGMENT REPORTING

Operating segments are identified on the same basis as financial information is reported internally to the Company's chief operating decision maker. The Company Board of Directors has been identified as the Company's chief operating decision maker who is responsible for allocating resources between segments and assessing their performances. The Company management determines operating segments by reference to the reports reviewed by the Board of Directors to make strategic decisions.

The Management believes that the Company operates in a single industry sector as the risks and returns for the activities do not show any material difference because the scope of activity covers only the production of white goods and the production processes and classes of customers are similar. As a result all information related to the industrial segment has been fully presented in the attached financial statements.

The Management has decided to use geographical segments for segment reporting considering the fact that risks and returns are affected by the differences in geographical regions.

Geographical segments

Segment revenue	**1 January - 31 December 2018**	**1 January - 31 December 2017**
Turkey	1.226.997	1.029.225
Europe	3.361.699	1.974.695
Other	1.116.240	866.821
Gross sales	5.704.936	3.870.741
Discounts (-)	(10.963)	(12.985)
Net sales	**5.693.973**	**3.857.756**

Other segment sales mainly comprise of sales to Asian and African countries.

The amount of export is 4.477.939 thousand TL for the period ended 31 December 2018. (1 January-31 December 2017: 2.841.516 thousand TL). Export sales are denominated in EURO, and USD as 91,9%, and 8,1% of total export respectively (1 January-31 December 2017: 96,3% EUR, 3,7% USD).

The carrying value of segment assets and costs incurred in order to obtain these assets are not separately disclosed since all assets of the company are located in Turkey.

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

NOTE 4 – CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash	300	178
Bank deposits		
- Demand deposits	102.983	65.012
Blocked deposits	17.564	8.489
Cash and cash equivalents	**120.847**	**73.679**

NOTE 5 – FINANCIAL LIABILITIES

	31 December 2018	31 December 2017
Short - term financial liabilities		
Short term bank loans	365.864	281.476
Short term portion of long term bank loans	287.078	70.051
Leasing debts	651	450
	653.593	**351.977**
Long - term financial liabilities		
Long term bank loans	-	178.968
Leasing debts	111	546
	111	**179.514**

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

NOTE 5 – FINANCIAL LIABILITIES (Cont'd)

Details of the Company's short term bank loans are given below:

	31 December 2018			31 December 2017		
Currency	**Weighted average of effective interest rates per annum**	**Original currency**	**TL Equivalent**	**Weighted average of effective interest rates per annum**	**Original currency**	**TL Equivalent**
- EUR	1,38%	49.572	298.823	1,59%	49.693	224.389
- TL	24,86%	67.041	67.041	16,69%	57.087	57.087
			365.864			**281.476**

Details of the Company's long term bank loans are given below:

	31 December 2018			31 December 2017		
Currency	**Weighted average of effective interest rates per annum**	**Original currency**	**TL Equivalent**	**Weighted average of effective interest rates per annum**	**Original currency**	**TL Equivalent**
- EUR	3,80%	38.737	233.508	4,21%	5.262	23.759
- TL	18,10%	53.570	53.570	14,18%	46.292	46.292
Short term portion			**287.078**			**70.051**
- EUR	-	-	-	3,80%	37.319	168.514
- TL	-	-	-	16,06%	10.454	10.454
Long term portion			**-**			**178.968**
			287.078			**249.019**

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

NOTE 5 – FINANCIAL LIABILITIES (Cont'd)

The redemption schedule of the Company's long term bank loans are given below:

	31 December 2018	31 December 2017
One to two years	-	178.968
	-	**178.968**

Fair value of short term bank borrowings are considered to approximate their carrying values due to immateriality of discounting. Fair values are determined using average effective annual interest rates. Long term bank borrowings are stated at amortized cost using effective interest rate method and their fair values are considered to approximate their carrying values since loans usually have a re-pricing period of six months.

Guarantees given for the bank loans obtained are disclosed in note 14.

As of 31 December 2018 and 31 December 2017, reconciliation of net financial debt is as below:

	31 December 2018	31 December 2017
Net financial debt as of 1 January	466.301	236.869
Cash inflows from loans	894.074	652.275
Cash outflows from loan payments	(969.226)	(392.977)
Cash inflow/outflow from other financial debts	(234)	996
Unrealized Fx gain/loss	184.754	16.883
Accrued interest	12.845	5.605
Change in cash and cash equivalents	(38.093)	(53.350)
Net financial debt at the end of the period	**550.421**	**466.301**

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

NOTE 6 – RELATED PARTY DISCLOSURES

a) Short term trade receivables from related parties

	31 December 2018	31 December 2017
Vestel Ticaret A.Ş.	1.481.423	1.046.054
	1.481.423	1.046.054
Unearned interest on receivables (-)	(5.312)	(7.252)
	1.476.111	**1.038.802**

The receivables result from the Company's foreign and domestic sales performed via Vestel Ticaret A.Ş. which is also a member of Vestel Group Companies.

b) Short term trade payables to related parties

	31 December 2018	31 December 2017
Vestel Elektronik Sanayi ve Ticaret A.Ş.	44.299	32.239
Vestel Ticaret A.Ş.	3.667	6.355
Vestel Holland B.V.	2.738	1.534
Other related parties	420	1.044
	51.124	41.172
Unearned interest on payables (-)	(874)	(428)
	50.250	**40.744**

c) Other short term receivables from related parties

	31 December 2018	31 December 2017
Vestel Elektronik Sanayi ve Ticaret A.Ş.	**703.884**	**511.898**

The Company's interest rate of other receivables in TL is 36% (31 December 2017: %18).

d) Other short term liabilities to related parties

	31 December 2018	31 December 2017
Vestel Elektronik Sanayi ve Ticaret A.Ş.	**130.423**	**64.507**

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

NOTE 6 – RELATED PARTY DISCLOSURES (Cont'd)

e) Other long term liabilities to related parties

	31 December 2018	31 December 2017
Vestel Elektronik Sanayi ve Ticaret A.Ş.	-	**98.323**

The Company's interest rate of other payables in EUR is Euribor +3,20 (31 December 2017: Euribor +3,20).

f) Transactions with related parties

	1 January - 31 December 2018	1 January - 31 December 2017
Sales		
Vestel Ticaret A.Ş.	5.721.813	3.854.559
Vestel Elektronik Sanayi ve Ticaret A.Ş.	26.319	14.859
Other related parties	235	11
	5.748.367	**3.869.429**
Purchases and operating expenses		
Vestel Holland B.V.	48.735	29.099
Vestel Elektronik Sanayi ve Ticaret A.Ş.	250.488	168.059
Other related parties	21.449	17.119
	320.672	**214.277**
Other operating income		
Vestel Ticaret A.Ş.	449.170	295.932
Other related parties	4.308	1.217
	453.478	**297.149**
Other operating expense		
Vestel Ticaret A.Ş.	182.957	55.575
Other related parties	4.813	2.174
	187.770	**57.749**

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

NOTE 6 – RELATED PARTY DISCLOSURES (Cont'd)

f) Transactions with related parties (cont'd)

	1 January - 31 December 2018	1 January - 31 December 2017
Dividend paid		
Vestel Elektronik Sanayi ve Ticaret A.Ş.	227.091	170.539
Public shares	12.909	9.461
	240.000	**180.000**
Financial income		
Vestel Elektronik Sanayi ve Ticaret A.Ş.	133.487	21.542
	133.487	**21.542**
Financial expense		
Vestel Elektronik Sanayi ve Ticaret A.Ş.	56.890	53.333
	56.890	**53.333**

g) Guarantees received from and given to related parties are disclosed in note 14.

h) Compensation paid to key management including directors, the Chairman of Board of Directors, general managers and assistant general managers.

Compensation paid to key management for the twelve months period ended 31 December 2018 is 6.067 thousand TL (1 January -31 December 2017: 7.524 thousand TL).

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

NOTE 7 – TRADE RECEIVABLES AND PAYABLES

	31 December 2018	31 December 2017
Short - term trade receivables		
Trade receivables		
- Related parties (note 6)	1.481.423	1.046.054
- Other parties	4.517	5.349
Cheques and notes receivables	-	2.131
	1.485.940	1.053.534
Unearned interest expense (-)		
- Related parties (note 6)	(5.312)	(7.252)
- Other parties	(139)	(161)
Allowance for doubtful receivables (-)	(276)	(238)
Total short - term trade receivables	**1.480.213**	**1.045.883**

The Company provides allowance for doubtful receivables based on historical experience.

	31 December 2018	31 December 2017
Short term trade payables		
Trade payables		
- Related parties (note 6)	51.124	41.172
- Other parties	1.857.966	1.205.514
	1.909.090	1.246.686
Unearned interest income (-)		
- Related parties (note 6)	(874)	(428)
- Other parties	(7.139)	(3.977)
	-	-
Total short term trade payables	**1.901.077**	**1.242.281**
Long term trade payables		
Trade payables		
- Other parties	14.531	1.959
Total long term trade payables	**14.531**	**1.959**

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

NOTE 8 – OTHER RECEIVABLES

	31 December 2018	31 December 2017
Short - term other receivables		
Other receivables from related parties (note 6)	703.884	511.898
VAT receivable	155.464	128.421
Deposits and guarantees given	6.849	3.474
Other receivables	1.479	1.402
	867.676	**645.195**

NOTE 9 – INVENTORIES

	31 December 2018	31 December 2017
Raw materials	362.841	312.136
Work in process	10.344	7.820
Finished goods	208.063	181.399
	581.248	501.355
Provision for impairment on inventories (-)	(2.194)	(1.175)
	579.054	**500.180**

As of 31 December 2018 the Company does not have inventories pledged as security for liabilities (31 December 2017: None).

Cost of the inventory included in the cost of sales for the current period amounts to 4.181.421 thousand TL (1 January – 31 December 2017: 2.928.539 thousand TL).

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

NOTE 9 – INVENTORIES (Cont'd)

Allocation of provision for impairment on inventories in terms of inventory type is as follows:

	31 December 2018	31 December 2017
Finished goods and merchandise	2.194	1.175
	2.194	**1.175**

Movement of inventory impairment on inventories is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance, 1 January	**1.175**	**268**
Current year additions	2.194	1.175
Realised due to sale of inventory	(1.175)	(268)
Balance at 31 December	**2.194**	**1.175**

NOTE 10 – PREPAID EXPENSES

	31 December 2018	31 December 2017
Prepaid expenses in current assets		
Order advances given	6.815	4.274
Prepaid expenses	5.701	9.453
Business advances given	107	76
	12.623	**13.803**
Prepaid expenses in non-current assets		
Advances given for fixed asset purchases	38.694	62.612
Prepaid expenses	896	340
	39.590	**62.952**

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

NOTE 11 – PROPERTY, PLANT AND EQUIPMENT

	1 January 2018	Additions	Disposals	Transfer	Fair value increase	31 December 2018
Cost or revaluation						
Land	39.063	-	-	-	153.761	192.824
Land improvements	3.275	75	-	(2.400)	39.883	40.833
Buildings	71.623	10.044	-	47.923	309.044	438.634
Leasehold improvements	7.514	1.347	(8)	1.247	-	10.100
Plant and machinery	1.056.638	217.251	(17.544)	242.809	-	1.499.154
Motor vehicles	589	70	(59)	-	-	600
Furniture and fixtures	54.285	10.054	(381)	5.555	-	69.513
Construction in progress	83.051	286.052	-	(331.615)	-	37.488
				-	-	
	1.316.038	**524.893**	**(17.992)**	**(36.481)**	**502.688**	**2.289.146**
Accumulated depreciation						
Land improvements	2.431	62	-	(2.493)	-	-
Buildings	30.785	3.203	-	(33.988)	-	-
Leasehold improvements	3.444	947	(4)	-	-	4.387
Plant and machinery	689.240	134.692	(17.327)	-	-	806.605
Motor vehicles	340	93	(54)	-	-	379
Furniture and fixtures	36.596	6.138	(323)	-	-	42.411
	762.836	**145.135**	**(17.708)**	**(36.481)**	**-**	**853.782**
Net book value	**553.202**					**1.435.364**

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

NOTE 11 – PROPERTY, PLANT AND EQUIPMENT (Cont'd)

	1 January 2017	Additions	Disposals	Transfer	31 December 2017
Cost					
Land	6.547	32.516	-	-	39.063
Land improvements	3.248	6	-	21	3.275
Buildings	69.608	1.346	(8)	677	71.623
Leasehold improvements	5.983	765	(9)	775	7.514
Plant and machinery	861.200	167.889	(3.514)	31.063	1.056.638
Motor vehicles	516	118	(45)	-	589
Furniture and fixtures	47.137	4.603	(182)	2.727	54.285
Construction in progress	6.943	111.371	-	(35.263)	83.051
	1.001.182	**318.614**	**(3.758)**	**-**	**1.316.038**
Accumulated depreciation					
Land improvements	2.373	58	-	-	2.431
Buildings	29.361	1.427	(3)	-	30.785
Leasehold improvements	2.839	609	(4)	-	3.444
Plant and machinery	606.234	85.980	(2.974)	-	689.240
Motor vehicles	301	75	(36)	-	340
Furniture and fixtures	32.109	4.667	(180)	-	36.596
	673.217	**92.816**	**(3.197)**	**-**	**762.836**
Net book value	**327.965**				**553.202**

Additions to property, plant and equipment in the period 1 January – 31 December 2018 and 2017 mainly consist of machinery and equipment investments made to refrigerator, washing machine, cooker, dishwasher and air conditioner factories.

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

NOTE 11 – PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Useful lives of property, plant and equipment is as follows:

	Useful life
Land improvements	8 - 35 years
Buildings	25 - 50 years
Leasehold improvements	5 years
Plant and machinery	5 - 20 years
Motor vehicles	5 years
Furniture and fixtures	5 - 10 years

Allocation of period depreciation and amortization expenses is as follows:

	1 January - 31 December 2018	**1 January - 31 December 2017**
Cost of sales	141.234	90.667
Research and development expenses	23.399	19.809
Marketing, selling and distribution expenses	531	359
General administrative expenses	1.240	911
	166.404	**111.746**

31 December 2018	**Level 1**	**Level 2**	**Level 3**
Tangible Assets			
Lands	-	192.824	-
Buildings and land improvements	-	479.467	-

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

NOTE 12 – INTANGIBLE ASSETS

	1 January 2018	Additions	Disposals	31 December 2018
Cost				
Rights	6.376	53	-	6.429
Development cost	197.197	47.514	(10)	244.701
Other intangible assets	13.762	2.365	-	16.127
	217.335	**49.932**	**(10)**	**267.257**
Accumulated amortization				
Rights	6.357	3	-	6.360
Development cost	87.391	20.143	-	107.534
Other intangible assets	5.373	1.123	-	6.496
	99.121	**21.269**	**-**	**120.390**
Net book value	**118.214**			**146.867**

	1 January 2017	Additions	Disposals	31 December 2017
Cost				
Rights	6.376	-	-	6.376
Development cost	159.355	40.083	(2.241)	197.197
Other intangible assets	11.490	2.272	-	13.762
	177.221	**42.355**	**(2.241)**	**217.335**
Accumulated amortization				
Rights	6.354	3	-	6.357
Development cost	69.424	17.967	-	87.391
Other intangible assets	4.413	960	-	5.373
	80.191	**18.930**	**-**	**99.121**
Net book value	**97.030**			**118.214**

Development costs, incurred by the Company on development projects relating to refrigerators, split air conditioners, washing machines, cookers and dish washers are capitalized as intangible assets when it is probable that costs will be recovered through future commercial activity and only if the cost can be measured reliably.

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

NOTE 12 – INTANGIBLE ASSETS (Cont'd)

Useful lives of intangible assets are as follows:

	Useful life
Rights	3 - 15 years
Development cost	2 - 10 years
Other intangible assets	2 - 15 years

NOTE 13 – GOVERMENT GRANTS

There are investment incentive certificates to which the Company has been entitled by the official authorities in connection with certain capital expenditures. The grants obtained by the Company in nature are as follows:

i) Exemption from customs duty on machinery and equipment to be imported,
ii) Value-added tax exemption with respect to purchases of investment goods both from domestic and export markets,
iii) Incentives under jurisdiction of the research and development law
iv) Inward processing permission certificates,
v) Cash refund from Tübitak-Teydeb for research and development expenses,
vi) Discounted corporate tax incentive,
vii) Insurance premium employer share incentive,

Research and development incentive premium from Tübitak Teknoloji ve Yenilik Destek Programları Başkanlığı ("TEYDEB") amounts to 548 thousand TL for the period 1 January - 31 December 2018 (1 January - 31 December 2017: 533 thousand TL).

Brand support incentive Turquality obtained from Republic of Turkey Prime Ministry Undersecretary of Treasury amounts to 9 thousand TL in year 2017 (2017: 19 thousand TL).

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

NOTE 14 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

a) Provisions

	31 December 2018	31 December 2017
Short - term provisions		
Provision for lawsuit risks	3.190	2.197
	3.190	**2.197**

The movements in the provision for lawsuits are as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance, 1 January	**2.197**	**1.620**
Current year additions	1.037	581
Payments/ disposals	(44)	(4)
Balance at 31 December	**3.190**	**2.197**

b) Guarantees received by the Company

	31 December 2018	31 December 2017
Guarantee letters	27.062	55.750
Cheques and notes	6.879	4.277
Collaterals and pledges	5.269.273	3.689.650
	5.303.214	**3.749.677**

Vestel Elektronik Sanayi ve Ticaret A.Ş. and Vestel Ticaret A.Ş. has given guarantees to various banks on behalf of the Company for its forward contracts and bank borrowings.

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

NOTE 14 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Cont'd)

c) Collaterals, pledges and mortgages ("CPM's") given by the Company are as follows:

CPM's given by the Group	USD ('000)	EUR ('000)	TL	TL Equivalent
31 December 2018				
A. CPM's given on behalf of its own legal entity	-	7.420	41.916	86.642
B. CPM's given on behalf of fully consolidated subsidiaries	-	-	-	-
C. CPM's given on behalf of third parties for ordinary course of business	-	-	-	-
D. Total amount of other CPM's given	1.008.140	44.487	907.894	6.479.785
i. Total amount of CPM's given on behalf of the parent company	722.288	-	667.835	4.467.720
ii. Total amount of CPM's given to on behalf of other group companies which are not in scope of B and C.	285.852	44.487	240.059	2.012.065
iii.Total amount of CPM's given on behalf of third parties which are not in scope of C.	-	-	-	-
Total	**1.008.140**	**51.907**	**949.810**	**6.566.427**

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

NOTE 14 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Cont'd)

CPM's given by the Group	USD ('000)	EUR ('000)	TL	TL Equivalent
31 December 2017				
A. CPM's given on behalf of its own legal entity	-	2.307	21.032	31.449
B. CPM's given on behalf of fully consolidated subsidiaries	-	-	-	-
C. CPM's given on behalf of third parties for ordinary course of business	-	-	-	-
D. Total amount of other CPM's given	1.008.140	44.487	907.894	4.911.378
i. Total amount of CPM's given on behalf of the parent company	722.288	-	667.835	3.392.233
ii. Total amount of CPM's given to on behalf of other group companies which are not in scope of B and C.	285.852	44.487	240.059	1.519.145
iii.Total amount of CPM's given on behalf of third parties which are not in scope of C.	-	-	-	-
Total	**1.008.140**	**46.794**	**928.926**	**4.942.827**

The Company has given collaterals to various banks on behalf of Vestel Elektronik Sanayi and Ticaret A.Ş. Vestel Ticaret A.Ş. and Vestel Holland BV for their forward contracts and bank loans obtained.

Proportion of other CPM's given by the Company to its equity 358 % as of 31 December 2018 (31 December 2017: 485%).

NOTE 15 – COMMITMENTS

As of the balance sheet date the Company has committed to realize exports amounting to 615.687 thousand USD (31 December 2017: 448.212 thousand USD) due to the export and investment incentive certificates obtained.

As of 31 December 2018 the Company has forward foreign currency purchase contract that amounts to 347.064 thousand TL, 41.714 thousand EUR and 158.639 thousand USD against forward foreign currency sales contract that amounts to 109.555 thousand EUR, 23.681 thousand USD and 669.358 thousand TL (31 December 2017: 92.509 thousand TL, 55.072 thousand EUR and 279.575 thousand USD against forward foreign currency sales contract that amounts to 242.091 thousand EUR, 17.745 thousand USD and 237.451 thousand TL sales contracts).

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

NOTE 16 – EMPLOYEE BENEFITS

Liabilities for employee benefits:

	31 December 2018	31 December 2017
Due to personnel	23.224	19.779
Social security payables	7.972	6.892
	31.196	**26.671**

Long term provisions for employee benefits:

	31 December 2018	31 December 2017
Provision for employment termination benefits	**38.713**	**31.749**

Under Turkish law, the Company is required to pay employment termination benefits to each employee whose employment is terminated without due caus. In addition, under the existing Social Security Law No. 506, clause No. 60, amended by the Labor Laws dated 6 March 1981, No. 2422 and 25 August 1999, No. 4447, the Company is also required to pay termination benefits to each employee who has earned the right to retire by receiving termination indemnities.

The amount payable is the equivalent of one month's gross salary for each year of service and is limited to a maximum of TL 5.434,42 TL / year as of 31 December 2018 (31 December 2017: 4.732,48 TL/year).

The provision for employee termination benefits is not funded.

The provision is calculated by estimating the present value of the future obligation of the company arising from retirement of employees. Turkish Accounting Standards No: 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined employee plans. Accordingly actuarial assumptions were used in the calculation of the total liability which is described below:

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. An expected inflation rate and appropriate discount rate should both be determined, the net of these being real discount rate. Consequently in the accompanying financial statements as at 31 December 2018 the provision is calculated by estimating the present value of the future obligation of the company arising from retirement of employees. As of 31 December 2018 provision is calculated based on real discount rate of 5,45% (31 December 2017: 4,67%) assuming 10 % annual inflation rate and 15,99% discount rate.

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

NOTE 16 – EMPLOYEE BENEFITS (Cont'd)

The movements in the provision for employment termination benefit are as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Balance at 1 January	**31.749**	**24.459**
Increase during the year	7.104	7.677
Payments during the year	(5.270)	(7.016)
Actuarial (gain) /loss	1.707	3.613
Interest expense	3.423	3.016
Balance at 31 December	**38.713**	**31.749**

As of 31 December 2018, an increase in annual discount rate by 0,25% would lead to a decrease in employee benefit liability by 3,8% ; a decrease in annual discount rate by 0,25% would lead to an increase in employee benefit liability by 4%. (31 December 2017: 4,1% decrease and 4,3% increase).

As of 31 December 2018, an increase in salary escalation by 0,25% would lead to an increase in employee benefit liability by 4,2%; a decrease in salary escalation by 0,25% would lead to a decrease in employee benefit liability by 4%.(31 December 2016: 4,5% increase and 4,3% decrease)

NOTE 17 – OTHER ASSETS AND LIABILITIES

	31 December 2018	31 December 2017
Other current assets		
VAT carried forward	221	266
Other	609	5.675
	830	**5.941**
Other current liabilities		
Taxes and dues payable	6.280	8.355
Advances received	108	-
Other	414	342
	6.802	**8.697**

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

NOTE 18 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS

a) Paid in capital

	31 December 2018	31 December 2017
Shares of par value TL 1 each		
Issued share capital	190.000	190.000

As of 31 December 2018 and 31 December 2017 the shareholding structure is as follows:

	Shareholding		Amount	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Vestel Elektronik Sanayi ve Ticaret A.Ş. (with Board of Directors Members)	95,18%	94,62%	180.834	179.780
Shares held by public	4,82%	5,38%	9.166	10.220
	100,00%	**100,00%**	**190.000**	**190.000**

b) Adjustments to share capital

Adjustment to share capital (restated to 31 December 2004 purchasing power of money) is the difference between restated share capital and historical share capital.

	31 December 2018	31 December 2017
Adjustment to share capital	**9.734**	**9.734**

c) Share Premium

Share premium account refers the difference between par value of the company's shares and the amount of the company received for newly issued shares. The share premium account is disclosed under equity as a separate line item and may not be distributed. It may be used in capital increase.

	31 December 2018	31 December 2017
Share premium	**109.031**	**109.031**

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

NOTE 18 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Cont'd)

d) Restricted reserves ("Legal reserves")

The legal reserves consist of first and second legal reserves appropriated in accordance with the Turkish Commercial Code ("TCC"). The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the Company's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the Company's share capital. Under TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid in share capital.

	31 December 2018	31 December 2017
Legal reserves	**118.206**	**111.627**

e) Retained earnings

	31 December 2018	31 December 2017
Extraordinary reserves	282.356	258.976
Previous year's profits	70.365	45.090
	352.721	**304.066**

NOTE 18 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Cont'd)

f) Dividend distribution

For quoted companies dividends are distributed in accordance with the Communiqué Serial II -19.1 on "Principals Regarding Distribution of Interim Dividends" issued by the CMB effective from 1 February 2014.

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and in conformity with relevant legislations. The communiqué does not state a minimum dividend rate. Companies distribute dividends in accordance with the method defined in their dividend policy or articles of association. Additionally, dividend can be distributed in fixed or variable installments and dividend advances can be paid over the profit on interim financial statements.

Unless the general reserves that has to be appropriated in accordance with TCC or the dividend to shareholders as determined in the articles of association or dividend policy are set aside; no decision can be taken to set aside other reserves, to transfer reserves to the subsequent year or to distribute dividends to holders of usufruct right certificates, to board of directors members or to employees; and no dividend can be distributed to those unless the determined dividend to shareholders is paid in cash.

On the other hand, in accordance with the Articles of Association of the Company, up to 5% of retained earnings after dividend distribution could be allocated to the Board of Directors or used for certain reasons designated by the Board of Directors when necessary.

- Based on the approval of the General Assembly, up to %3 of retained earnings after dividend distribution could be allocated to plant investments designated in accordance with article of 468 in TCC,
- Up to %5 of retained earnings after dividend distribution could be allocated to the Board of Directors as necessary,
- Up to %5 of retained earnings after dividend distribution could be allocated to donations, bonuses etc.

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

NOTE 19 – SALES

	1 January - 31 December 2018	1 January - 31 December 2017
Domestic sales	1.226.997	1.029.225
Overseas sales	4.477.939	2.841.516
Gross sales	**5.704.936**	**3.870.741**
Less: Sales discounts	(10.963)	(12.985)
Net sales	**5.693.973**	**3.857.756**
Cost of sales	(4.781.608)	(3.363.747)
Gross profit	**912.365**	**494.009**

NOTE 20 – EXPENSES BY NATURE

	1 January - 31 December 2018	1 January - 31 December 2017
Raw materials, supplies and finished goods	4.210.609	3.038.847
Changes in finished goods, work in process and trade goods	(29.188)	(110.308)
Personnel expenses	360.495	290.817
Depreciation and amortization	166.404	111.746
Other	257.876	172.453
	4.966.196	**3.503.555**

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

NOTE 21 – GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES, RESEARCH AND DEVELOPMENT EXPENSES

a) General administrative expenses:

	1 January - 31 December 2018	1 January - 31 December 2017
Personnel expenses	12.279	13.649
Consultancy and IT expenses	19.391	13.758
Rent and office expenses	5.216	4.317
Travelling expense	1.379	1.648
Energy expenses	830	550
Depreciation and amortization	1.240	911
External benefits and services	373	490
Other	18.629	13.595
	59.337	**48.918**

b) Marketing expenses:

Personnel expenses	16.271	12.833
Transportation expenses	43.128	28.520
Tax and duties	9.343	5.305
Insurance expenses	1.812	1.413
Depreciation and amortization	531	359
Other	8.676	5.501
	79.761	**53.931**

c) Research and development expenses:

Depreciation and amortization	23.399	19.809
Personnel expenses	9.208	8.427
Other	12.883	8.723
	45.490	**36.959**

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

NOTE 22 – OTHER INCOME AND EXPENSE FROM OPERATING ACTIVITIES

a) Other operating income	**1 January - 31 December 2018**	**1 January - 31 December 2017**
Credit finance gains arising from trading activities	6.896	49.591
Foreign exchange gains arising from trading activities	471.622	267.752
Other income	9.390	8.370
	487.908	**325.713**

b) Other operating expenses

	1 January - 31 December 2018	**1 January - 31 December 2017**
Debit finance charges arising from trading activities	11.031	43.377
Foreign exchange expenses arising from trading activities	599.067	145.048
Other expenses	12.287	6.877
	622.385	**195.302**

NOTE 23 – FINANCIAL INCOME AND FINANCIAL EXPENSE

a) Financial income:

	1 January - 31 December 2018	**1 January - 31 December 2017**
Foreign exchange gains	52.973	20.794
Gains on derivative financial instruments	414.750	86.168
Interest income	139.876	21.605
	607.599	**128.567**

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

NOTE 23 – FINANCIAL INCOME AND FINANCIAL EXPENSE (Cont'd)

b) Financial expense:

	1 January - 31 December 2018	1 January - 31 December 2017
Foreign exchange losses	215.339	103.286
Losses on derivative financial instruments	311.867	161.348
Interest expense	51.782	47.864
Other finance expenses	144	107
	579.132	**312.605**

NOTE 24 – ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS

a) Cash flow hedge fund:

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance, 1 January	(1.352)	18.786
Gains (losses) on cash flow hedges	918	(25.216)
Taxes relating to cash flow hedges	(202)	5.078
Balance at 31 December	**(636)**	**(1.352)**

b) Actuarial (loss) / gain arising from defined benefit plans:

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance, 1 January	(6.203)	(3.313)
Gains (losses) on remeasurements of defined benefit plans	(1.707)	(3.613)
Taxes relating to remeasurements of defined benefit plans	341	723
Balance at 31 December	**(7.569)**	**(6.203)**

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

NOTE 25 – TAXES ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)

	31 December 2018	31 December 2017
Corporation and income taxes	5.512	3.164
Prepaid taxes	(4.796)	(4.414)
Current income tax liabilities - net	**716**	**(1.250)**

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses and by deducting other exempt income. In addition to corporate taxes, companies should also calculate income withholding taxes on any dividends distributed at the rate of 15%, except for companies receiving dividends who are resident companies in Turkey. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

In Turkey, advance tax returns are filed on a quarterly basis at the rate of %20, until the 14th day of the following month and paid until the 17th day. Advance tax returns files within the year are offset against corporate income tax calculated over the annual taxable corporate income.

According to the Corporate Tax Law, 50% of the capital gains arising from the sale of tangible assets and investments in equity shares owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity.

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.

There is no procedure for a final and definitive agreement on tax assessments. Tax returns are filed between 1-25 April following the close of the accounting year to which they relate. Tax authorities may however examine such returns and the underlying accounting records and may revise assessment within five years.

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017, corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2018 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

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

NOTE 25 – TAXES ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Cont'd)

As of 1 January – 31 December 2018 and 2017 tax expense in the statement of income is as follows:

	1 January - 31 December 2018	**1 January - 31 December 2017**
Current period tax expense	(5.512)	(3.164)
Deferred tax benefit / (expense)	6.306	(2.176)
Total tax expense	**794**	**(5.340)**

Total tax benefit for the year can be reconciled to the accounting profit as follows:

	1 January - 31 December 2018	**1 January - 31 December 2017**
Profit before tax	**621.767**	**300.574**
Local tax rate	22%	22%
Tax income calculated using local tax rate	(136.789)	(66.126)
	-	-
Non-deductible expenses	(2.968)	(1.583)
Discounts and exemptions	18.247	12.976
Discounted corporate tax advantage	122.129	48.359
Effect of legal tax rate change on deferred tax	(175)	1.034
Other	350	-
	794	**(5.340)**

Due to modernization, plant extension and investments incentive documents in Manisa Organized Industrial Zone, the Company has reduced rate of corporate tax advantage.

Deferred tax assets and liabilities

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising between their financial statements prepared in accordance with CMB Communiqué II, No. 14.1 and their statutory financial statements. These temporary differences usually result from the recognition of revenue and expenses in different reporting periods for CMB Financial Reporting Standards and tax purposes

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

NOTE 25 – TAXES ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Cont'd)

The breakdown of cumulative temporary differences and the resulting deferred tax assets and liabilities provided using principal tax rate as of the balance sheet dates is as follows:

	Cumulative temporary differences		**Deferred tax**	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Deferred tax assets				
Employment termination benefits	(38.713)	(31.749)	7.743	6.350
Provision for impairment on inventories	(2.194)	(1.175)	483	258
Derivative financial instruments	(20.129)	(5.968)	4.428	1.313
Other	(13.114)	(14.436)	2.885	3.176
			15.539	**11.097**

	Cumulative temporary differences		**Deferred tax**	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Deferred tax liabilites				
Useful life and valuation differences on property, plant and equipment and intangible assets	8.480	25.180	(1.696)	(5.036)
Revaluation of tangible fixed assets	502.688	-	(85.161)	-
Derivative financial instruments	2.028	-	(446)	-
Other	6.360	1.900	(1.272)	(380)
			(88.575)	**(5.416)**
Deferred tax assets - net			**(73.036)**	**5.681**

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

NOTE 25 – TAXES ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Cont'd)

The movement of net deferred tax assets and liabilities is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance, 1 January	**5.681**	**2.056**
Tax expense recognized in income statement	6.306	(2.176)
Recognized in shareholders' equity	(85.022)	5.801
Deferred tax liabilities at the end of the period, net	**(73.035)**	**5.681**

NOTE 26– EARNINGS PER SHARE

	1 January - 31 December 2018	1 January - 31 December 2017
Net (loss) / income attributable to equity holders of the parent	622.561	295.234
Weighted number of ordinary shares with a TL 1 of par value (thousand shares)	190.000	190.000
	3,28	**1,55**

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

NOTE 27 – DERIVATIVE INSTRUMENTS

	31 December 2018		31 December 2017	
	Contract amount	Fair Value Assets / (Liabilities)	Contract amount	Fair Value Assets / (Liabilities)
Derivative financial assets:				
Held for trading				
Forward foreign currency transactions	287.560	2.028	211.078	1.759
Cash flow hedge				
Forward foreign currency transactions	-	-	486.575	2.250
Derivative financial liabilities:				
Held for trading				
Forward foreign currency transactions	1.000.866	(19.314)	415.169	(5.993)
Cash flow hedge				
Forward foreign currency transactions	144.675	(815)	282.893	(3.984)
	1.433.101	**(18.101)**	**1.395.715**	**(5.968)**

NOTE 28 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

a) Capital risk management:

The Company manages its capital to ensure that it will maintain its status as a going concern while maximizing the return to stakeholders through optimization of the debt and equity balance.

The management considers the cost of capital and the risks associated with each class of capital. The management aims to balance its overall capital structure through the payment of dividends, share issues and proceeds from or repayments of debt.

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

NOTE 28– FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

As of 31 December 2018 and 2017 the Company's net debt / total equity ratios are as follows:

	31 December 2018	31 December 2017
Total financial liabilities (note 5)	653.704	531.491
Cash and cash equivalents (note 4)	(120.847)	(73.679)
Net debt	**532.857**	**457.812**
Total equity	1.811.575	1.012.137
Capital invested	**2.344.432**	**1.469.949**
Net debt/capital invested	**0,23**	**0,31**

b) Financial risk factors:

The Company's activities expose it to a variety of financial risks including the foreign currency exchange rates risk, credit risk and liquidity risk. The Company's overall risk management program on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company. The Company uses derivative financial instruments in order to protect itself from various financial risks.

b.1) Credit risk:

Credit risk arises from bank deposits, trade receivables and other trade receivables. Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of these agreements. The Company sells significant portion of its products to Vestel Ticaret A.Ş. which is a group company. Credit risk is evaluated by considering past experiences and current economic conditions and receivables is presented in the balance sheet after appropriate amount of provision for doubtful receivables is allocated. The company considers that the credit risk is managed effectively. The following statements show the analysis of credit risk as of 31 December 2018 and 31 December 2017:

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

NOTE 28 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

	Receivables					
	Trade Receivables		Other Receivables			
31 December 2018	**Related Parties**	**Third Parties**	**Related Parties**	**Third Parties**	**Bank Deposits**	**Other**
Maximum exposed credit risk as at 31 December 2018 (A+B+C+D)	**1.476.111**	**4.102**	**703.884**	**163.792**	**102.983**	**17.864**
- Secured portion of the maximum credit risk by guarantees, etc	-	-	-	-	-	-
A. Net book value of financial asset either are not due or impaired	1.476.111	4.102	703.884	163.792	102.983	17.864
B. Net book value of financial asset with renegotiated conditions, otherwise considered as overdue or impaired	-	-	-	-	-	-
C.Net book value of overdue but not impaired financial assets	-	-	-	-	-	-
- Secured portion by guarantees, etc	-	-	-	-	-	-
D. Net book value of the impaired assets	-	-	-	-	-	-
- Overdue	-	276	-	-	-	-
- Impairment	-	(276)	-	-	-	-
-Secured portion of the net value by guarantees, etc	-	-	-	-	-	-
E. Off balance sheet items comprised of credit risk	-	-	-	-	-	-

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

NOTE 28 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

	Receivables					
	Trade Receivables		Other Receivables			
31 December 2017	**Related Parties**	**Third Parties**	**Related Parties**	**Third Parties**	**Bank Deposits**	**Other**
Maximum exposed credit risk as at 31 December 2017 (A+B+C+D)	**1.038.802**	**7.081**	**511.898**	**133.297**	**65.012**	**8.667**
- Secured portion of the maximum credit risk by guarantees, etc	-	-	-	-	-	-
A. Net book value of financial asset either are not due or impaired	1.038.802	7.081	511.898	133.297	65.012	8.667
B. Net book value of financial asset with renegotiated conditions, otherwise considered as overdue or impaired	-	-	-	-	-	-
C.Net book value of overdue but not impaired financial assets	-	-	-	-	-	-
- Secured portion by guarantees, etc	-	-	-	-	-	-
D. Net book value of the impaired assets	-	-	-	-	-	-
- Overdue	-	238	-	-	-	-
- Impairment	-	(238)	-	-	-	-
- Secured portion of the net value by guarantees, etc	-	-	-	-	-	-
E. Off balance sheet items comprised of credit risk	-	-	-	-	-	-

NOTE 28 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

b.2) Price risk:

Due to the fact that the Company's operating profit and cash flows from operating activities has been affected by competition in the sector and changes in raw material prices, the prices is monitored by the Company management and cost-cutting measures has been taken in order to mitigate cost pressure effect on price level. In addition, the Company reviews market prices for active financial and operational risk management regularly.

Existing risks has been monitored on Audit Committee and Board of Directors meetings and raw material prices in market is reviewed closely.

b.3) Liquidity risk:

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Company manages liquidity risk by providing the continuity of sufficient funds and loan reserves by twinning the maturities of financial assets and liabilities by following cash flow regularly.

The following tables detail the Company's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of non-derivative financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows. Derivative financial liabilities are presented by undiscounted net inflows and outflows.

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

NOTE 28 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

The analysis of the Company's financial liabilities with respect to their maturities as of 31 December 2018:

Contractual Maturities	Book Value	Total contractual cash outflows	Less than 3 months	3 - 12 months	1 - 5 years	More than 5 years
Non-derivative financial liabilities						
Bank Barrowings	653.704	660.046	444.430	215.616	-	-
Trade Payables	1.915.608	1.923.196	1.502.710	405.955	14.531	-
Other Payables	130.423	133.370	45.135	88.235	-	-
	2.699.735	**2.716.612**	**1.992.275**	**709.806**	**14.531**	**-**
Derivative financial instruments						
Derivative cash inflows	-	(1.433.101)	(1.433.101)	-	-	-
Derivative cash outflows	-	1.454.335	1.454.335	-	-	-
	18.101	**21.234**	**21.234**	**-**	**-**	**-**

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

NOTE 28 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

The analysis of the Company's financial liabilities with respect to their maturities as of 31 December 2017:

Contractual Maturities	**Book Value**	**Total contractual cash outflows**	**Less than 3 months**	**3 - 12 months**	**1 - 5 years**	**More than 5 years**
Non-derivative financial liabilities						
Bank Barrowings	531.491	543.535	90.101	265.039	188.395	-
Trade Payables	1.244.240	1.248.658	942.757	305.901	-	-
Other Payables	162.830	169.118	34.848	34.364	99.906	-
	1.938.561	**1.961.311**	**1.067.706**	**605.304**	**288.301**	**-**
Derivative financial instruments						
Derivative cash inflows	-	(1.395.715)	(909.140)	(486.575)	-	-
Derivative cash outflows	-	1.397.546	917.508	480.038	-	-
	5.968	**1.831**	**8.368**	**(6.537)**	**-**	**-**

b.4) Foreign currency risk:

The Company is exposed to exchange rate risk due to its foreign currency denominated transactions. The main principle of foreign currency risk management is to maintain foreign exchange position at the level that minimizes the impact of foreign exchange fluctuations.

Derivative instruments are used in foreign currency risk management where necessary. In this respect the Company mainly prefers using foreign exchange forward contracts.

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

NOTE 28 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

31 December 2018	USD	EUR	Other (TL Equivalent)	TL Equivalent
1. Trade receivables	13.135	195.171	-	1.245.593
2a. Monetary financial assets (including cash and cash equivalents)	- 183	- 12.657	- 80	- 77.339
2b. Non-monetary financial assets	-	-	-	-
3. Other	-	-	-	-
4. Current assets (1+2+3)	**13.318**	**207.828**	**80**	**1.322.932**
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	160	2.783	-	17.618
7. Other	-	-	-	-
8. Non-current assets (5+6+7)	**160**	**2.783**	**-**	**17.618**
9. Total assets (4+8)	**13.478**	**210.611**	**80**	**1.340.550**
10. Trade payables	185.034	83.146	519	1.475.168
11. Financial liabilities	-	88.309	-	532.325
12a. Other monetary liabilities	-	21.636	-	130.422
12b. Other non-monetary liabilities	-	-	-	-
13. Current liabilities (10+11+12)	**185.034**	**193.091**	**519**	**2.137.915**
14. Trade payables	-	2.261	-	13.629
15. Financial liabilities	-	-	-	-
16a. Other monetary liabilities	-	-	-	-
16b. Other non-monetary liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	**-**	**2.261**	**-**	**13.629**
18. Total liabilities (13+17)	**185.034**	**195.352**	**519**	**2.151.544**
19. Off-balance sheet derivative instruments/ net asset (liability) position (19a+19b)	**134.958**	**(67.841)**	**-**	**301.055**
19a. Hedged total assets	158.639	41.714	-	1.086.036
19b. Hedged total liabilities	(23.681)	(109.555)	-	(784.981)
20. Net foreign currency asset/ (liability) position (9-18+19)	**(36.598)**	**(52.582)**	**(439)**	**(509.939)**
21. Net foreign currency monetary asset/ (liability) position (=1+2a+5+6a-10-11-12a-14-15-16a)	**(171.716)**	**12.476**	**(439)**	**(828.612)**
22. Fair value of financial instruments used in foreign currency hedging	**-**	**-**	**-**	**(18.101)**
23. Export	74.243	711.036	-	4.477.939
24. Import	305.596	197.115	1.878	2.545.901

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

NOTE 28 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

31 December 2017	USD	EUR	Other (TL Equivalent)	TL Equivalent
1. Trade receivables	12.776	148.303	163	718.015
2a. Monetary financial assets (including cash and cash equivalents)	350	15.540	19	71.510
2b. Non-monetary financial assets	-	-	-	-
3. Other	36.720	-	-	138.504
4. Current assets (1+2+3)	**49.846**	**163.843**	**182**	**928.029**
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	1.605	7.140	-	38.295
7. Other	-	-	-	-
8. Non-current assets (5+6+7)	**1.605**	**7.140**	**-**	**38.295**
9. Total assets (4+8)	**51.451**	**170.983**	**182**	**966.324**
10. Trade payables	180.221	56.166	46	933.439
11. Financial liabilities	-	54.955	-	248.148
12a. Other monetary liabilities	-	14.286	-	64.508
12b. Other non-monetary liabilities	-	-	-	-
13. Current liabilities (10+11+12)	**180.221**	**125.407**	**46**	**1.246.095**
14. Trade payables	-	-	-	-
15. Financial liabilities	-	37.319	-	168.514
16a. Other monetary liabilities	-	21.775	-	98.325
16b. Other non-monetary liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	**-**	**59.094**	**-**	**266.839**
18. Total liabilities (13+17)	**180.221**	**184.501**	**46**	**1.512.934**
19. Off-balance sheet derivative instruments/ net asset (liability) position (19a+19b)	**261.830**	**(187.019)**	**-**	**143.112**
19a. Hedged total assets	279.575	55.072	-	1.303.207
19b. Hedged total liabilities	(17.745)	(242.091)	-	(1.160.094)
20. Net foreign currency asset/ (liability) position (9-18+19)	**133.060**	**(200.537)**	**136**	**(403.498)**
21. Net foreign currency monetary asset/ (liability) position (=1+2a+5+6a-10-11-12a-14-15-16a)	**(167.095)**	**(20.658)**	**136**	**(723.409)**
22. Fair value of financial instruments used in foreign currency hedging	**-**	**-**	**-**	**(5.968)**
23. Export	29.144	671.923	-	2.841.516
24. Import	261.603	200.443	1.408	1.776.031

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

NOTE 28 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

As of 31 December 2018 and 31 December 2017, sensitivity analysis of foreign exchange rate tables is presented below, secured portions include impact of derivative instruments.

	Gain / Loss		Equity	
31 December 2018	**Foreign exchange appreciation**	**Foreign exchange depreciation**	**Foreign exchange appreciation**	**Foreign exchange depreciation**
+/- 10% fluctuation of USD rate:				
USD net asset / liability	(90.338)	90.338	(90.338)	90.338
Secured portion from USD risk (-)	56.569	(56.569)	70.977	(70.977)
USD net effect	**(33.769)**	**33.769**	**(19.361)**	**19.361**
+/- 10% fluctuation of EUR rate:				
EUR net asset / liability	7.520	(7.520)	7.520	(7.520)
Secured portion from EUR risk (-)	(26.755)	26.755	(41.244)	41.244
EUR net effect	**(19.235)**	**19.235**	**(33.724)**	**33.724**
+/- 10% fluctuation of other currency rates:				
Other currencies net asset / liability	(44)	44	(44)	44
Secured portion from other currency risk (-)	-	-	-	-
Other currency net effect	**(44)**	**44**	**(44)**	**44**

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

NOTE 28 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

	Gain / Loss		Equity	
31 December 2017	**Foreign exchange appreciation**	**Foreign exchange depreciation**	**Foreign exchange appreciation**	**Foreign exchange depreciation**
+/- 10% fluctuation of USD rate:				
USD net asset / liability	(63.027)	63.027	(63.027)	63.027
Secured portion from USD risk (-)	21.788	(21.788)	98.314	(98.314)
USD net effect	**(41.239)**	**41.239**	**35.287**	**(35.287)**
+/- 10% fluctuation of EUR rate:				
EUR net asset / liability	(9.328)	9.328	(9.328)	9.328
Secured portion from EUR risk (-)	(7.971)	7.971	(84.670)	84.670
EUR net effect	**(17.299)**	**17.299**	**(93.998)**	**93.998**
+/- 10% fluctuation of other currency rates:				
Other currencies net asset / liability	14	(14)	14	(14)
Secured portion from other currency risk (-)	-	-	-	-
Other currency net effect	**14**	**(14)**	**14**	**(14)**

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

NOTE 28 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

b.5) Interest rate risk:

The Company is exposed to interest rate risk as the Company borrow funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate hedge contracts and forward interest rate contracts.

Analysis of financial instruments of the Company which are sensitive to interest rate changes is as follows:

	31 December 2018	31 December 2017
Financial instruments with fixed interest rates		
Time deposits	-	-
Financial liabilities	653.704	531.491
Financial instruments with variable interest rates		
Finansal liabilities	-	-
Other liabilities	130.423	162.830

On 31 December 2018, if interest rates of all currency denominated financial assets and liabilities with variable interest rates has strengthened / weakened by 100 base point with all other variables held constant, income before taxes would have been 1.270 thousand TL (2017: 1.540 thousand TL) lower / higher as a result of interest expenses.

NOTE 29 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES)

Categories of financial instruments and fair values

The Company has classified its financial assets and liabilities as at fair value through profit or loss, available for sale financial assets and loans and receivables. Among Company's financial assets, cash and cash equivalents (note 4), trade receivables (notes 6 and 7) and other receivables (notes 6 and 8), are classified as loans and receivables and are measured at amortized cost using the effective interest method.

Company's financial liabilities consist of financial liabilities (note 5) and trade payables (note 7) are measured at amortized cost using the effective interest method.

NOTE 29 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES) (Cont'd)

Fair value of financial instruments

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.

The estimated fair values of financial instruments have been determined by the Company, using available market information and appropriate valuation methodologies. However, judgement is necessarily required interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. Following methods and assumptions were used to estimate the fair value of the financial instruments for which is practicable to estimate fair value:

Monetary assets

The book value of foreign currency denominated balances which are translated to TL using exchange rates prevailing on the date of the balance sheet approximate their fair values. For financial assets measured at cost including cash and cash equivalents, the carrying amounts are the same with fair values due to their short term nature. Carrying amounts of trade receivables net of impairments approximate their fair values.

Monetary liabilities

The fair values of short term financial liabilities and other financial liabilities are estimated to be their fair values since they are short term. Fair value is calculated by discounting the cash out flows regarding due dates of financial liabilities considering the changing country risk premium and changes in the market interest rates.

Fair value hierarchy

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

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

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

Level 3: Valuation techniques does not contains observable market inputs

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

NOTE 29 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES) (Cont'd)

Fair value hierarchy tables as of 31 December 2018 and 31 December 2017 are as follows:

31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets / (liabilities)				
Derivative financial assets / (liabilities)	-	(18.101)	-	(18.101)

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets / (liabilities)				
Derivative financial assets / (liabilities)	-	(5.968)	-	(5.968)