TEKNOSA İÇ VE DIŞ TİCARET ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 WITH INDEPENDENT AUDITOR'S REPORT

(Originally issued in Turkish)

18 February 2019

This report includes 7 pages of independent auditor's report and 62 pages of financial statements and notes to the financial statements.

INDEX **PAGE**

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

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

		Current period	**Prior period**
		Audited	***Audited***
	Notes	**31 December 2018**	**31 December 2017**
ASSETS			
Current assets		**592.569**	**554.759**
Cash and cash equivalents	*5*	26.987	72.703
Trade receivables	*7*	65.775	56.128
Trade receivables from related parties	*4,7*	*1.764*	*2.610*
Trade receivables from third parties	*7*	*64.011*	*53.518*
Inventories	*9*	492.677	418.496
Prepaid expenses	*10*	6.003	5.618
Other current assets	*17*	1.127	1.814
Non-current assets		**167.856**	**172.049**
Other receivables	*8*	581	501
Investment property	*11*	8.929	10.196
Property, plant and equipment	*12*	89.584	84.921
Intangible assets	*13*	26.999	24.184
Prepaid expenses	*10*	265	432
Deferred tax assets	*24*	41.498	51.815
TOTAL ASSETS		**760.425**	**726.808**

TEKNOSA İÇ VE DIŞ TİCARET ANONİM ŞİRKETİ

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

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

	Notes	**Current period** *Audited* **31 December 2018**	**Prior period** *Audited* **31 December 2017**
LIABILITIES			
Current liabilities		**855.233**	**763.615**
Financial Liabilities		8.500	--
Trade payables	*7*	777.142	674.944
Trade payables to related parties	*4,7*	*4.738*	3.296
Trade payables to third parties	*7*	*772.404*	671.648
Payables related to employee benefits	*14*	15.643	16.877
Other payables	*8*	1.990	1.456
Other payables to third parties		*1.990*	*1.456*
Deferred revenue	*10*	12.532	17.660
Short-term provisions		22.681	22.887
Short-term provisions for employee benefits	*14*	*7.329*	*10.229*
Other short-term provisions	*15*	*15.352*	*12.658*
Derivative financial instruments	*27*	--	304
Other current liabilities	*17*	16.745	29.487
Non-current liabilities		**8.270**	**6.566**
Long-term provisions for employee benefits	*14*	8.270	6.566
EQUITY		**(103.078)**	**(43.373)**
Share capital	*18*	110.000	110.000
Adjustments to share capital	*18*	6.628	6.628
Restricted reserves	*18*	8.704	8.704
Other reserves		3	3
Other compherensive income or expense items that are or may be reclassified to profit or loss		--	(237)
Cash flow hedge reserves		--	*(237)*
Other comprehensive income or expense items that will not be reclassified to profit or loss		24.008	19.341
Gains on revaluation of property, plant and equipment		*27.209*	*21.908*
Losses on remeasurement of defined benefit plans		*(3.201)*	*(2.567)*
Accumulated losses		(187.812)	(207.380)
Net profit / (loss) for the period		(64.609)	19.568
TOTAL LIABILITES		**760.425**	**726.808**

(CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH)

TEKNOSA İÇ VE DIŞ TİCARET ANONİM ŞİRKETİ

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	**Current period** **1 January- 31 December 2018**	**Prior period** **1 January- 31 December 2017**
Revenue	*19*	3.477.020	3.390.559
Cost of revenue (-)	*19*	(2.831.234)	(2.778.833)
GROSS PROFIT		**645.786**	**611.726**
Marketing expenses (-)	*20*	(466.990)	(433.479)
General administrative expenses (-)	*20*	(56.126)	(43.031)
Other income from operating activities	*21*	71.884	29.354
Other expenses from operating activities (-)	*21*	(144.736)	(78.009)
RESULTS FROM OPERATING ACTIVITIES		**49.818**	**86.561**
Income from investing activities	*22*	316	336
Expenses from investing activities (-)	*22*	(6.811)	(794)
Impairment profit / (loss) and Reversals of Impairment Losses in Accordance with TFRS 9		279	(1.448)
OPERATING PROFIT/(LOSS) BEFORE FINANCE COSTS		**43.602**	**84.655**
Finance costs (-)	*23*	(98.088)	(60.278)
OPERATING PROFIT/ (LOSS) BEFORE INCOME TAX		**(54.486)**	**24.377**
Tax (expense)/income		**(10.123)**	**(4.809)**
- Current tax expense		--	--
- Deferred tax (expense)/income	*24*	(10.123)	(4.809)
PROFIT/(LOSS) FOR THE PERIOD		**(64.609)**	**19.568**
Attributable to:			
Non-controlling interests		--	--
Owners of the Company		(64.609)	19.568
OTHER COMPREHENSIVE INCOME / (EXPENSE)			
Items that will not be reclassified to profit or loss		**4.667**	**(789)**
Gains/(losses) on remeasurement of defined benefit plans		(792)	(986)
Gains on revaluation of property, plant and equipment		5.586	--
Income tax related to items that will not be reclassified to profit or loss		(127)	197
Items that are or may be reclassified to profit or loss		**237**	**(237)**
(Losses)/gains on cash flow hedges		304	(304)
Income tax related to items that are or may be reclassified to profit or loss		(67)	67
TOTAL COMPREHENSIVE INCOME / (EXPENSE)		**(59.705)**	**18.542**
Earnings/(loss) per share [(For 1 lot share)]	*25*	(0,0059)	0,0018
Diluted earnings /(loss) per share [(For 1 lot share)]	*25*	(0,0059)	0,0018

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

TEKNOSA İÇ VE DIŞ TİCARET ANONİM ŞİRKETİ

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

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

					Other comprehensive income that will not be reclassified to profit or loss		**Other comprehensive income that are or may be reclassified to profit or loss**	**Retained earnings/Accumulated losses**		
(NOTE 18)	Paid in share capital	Adjusments to share capital	Restricted reserves	Other reserves	Gain / (losses) on remeasurement of defined benefit plans	Gains on revaluation of property, plant and equipment	Cash flow hedge reserve	Prior years' profit/ (losses)	Net profit/ (loss) for the period	Total equity
Prior period										
Balance at 1 January 2017	110.000	6.628	8.704	3	(1.778)	21.908	--	(46.767)	(160.613)	(61.915)
Transfers	--	--	--	--	--	--	--	(160.613)	160.613	--
Total comprehensive income	--	--	--	--	(789)	--	(237)	--	19.568	18.542
Balance at 31 December 2017	**110.000**	**6.628**	**8.704**	**3**	**(2.567)**	**21.908**	**(237)**	**(207.380)**	**19.568**	**(43.373)**
Current period										
Balance at 1 January 2018	110.000	6.628	8.704	3	(2.567)	21.908	(237)	(207.380)	19.568	(43.373)
Transfers	--	--	--	--	--	--	--	19.568	(19.568)	--
Total comprehensive income	--	--	--	--	(634)	5.301	237	--	(64.609)	(59.705)
Balance at 31 December 2018	**110.000**	**6.628**	**8.704**	**3**	**(3.201)**	**27.209**	**--**	**(187.812)**	**(64.609)**	**(103.078)**

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

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

		Current period	Prior period
		Audited	*Audited*
	Notes	**1 January – 31 December 2018**	**1 January – 31 December 2017**
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) for the period		(64.609)	19.568
Adjustments:			
Adjustments for finance costs	*23*	98.088	60.278
Adjustments for depreciation and amortisation expenses	*20*	32.013	33.624
Adjustments for fair value (gains) or losses on derivative financial instruments		67	(67)
Adjustments for impairment of receivables	*7*	(2.776)	1.448
Adjustments for (reversal of)/provision for other provisions		6.113	(4.628)
Adjustments for (reversal of)/impairment of property, plant and equipment and intangible assets	*12,13*	(1.546)	5.189
Adjustments for (reversal of)/impairment of inventory	*9*	(2.363)	549
Adjustments for provision for employee benefits		2.427	8.416
Adjustments for interest expenses	*22*	(187)	(336)
Adjustments for tax expense/(income)	*24*	10.123	4.809
Adjustments for the (gains)/losses on sale of property, plant and equipment	*22*	5.544	794
		81.929	**129.644**
Changes in working capital:			
Decrease/(increase) in trade receivables from third parties		(7.717)	(6.515)
Decrease in trade receivables from related parties	*4*	846	(909)
Decrease/(increase) in inventories	*9*	(74.181)	(66.358)
Decrease in other assets related to operations		389	7.235
Decrease in trade payables to third parties	*7*	100.756	(36.474)
Decrease in trade payables to related parties	*4,7*	1.442	(905)
Change in other liabilities related to operations		(16.382)	(248)
Payments related to provisions for employee benefits	*14*	(3.781)	(3.757)
Payments related to other provisions	*15*	(3.419)	(17.480)
Cash provided by/(used in) operating activities		**80.847**	**4.233**
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	*12*	(23.767)	(16.580)
Acquisition of intangible assets	*13*	(13.395)	(11.658)
Proceeds from sale of property, plant and equipment and intangible assets	*12,13*	--	556
Interest received	*22*	187	336
Cash used in investing activities		**(36.975)**	**(27.346)**
C. CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	*23*	(98.088)	(60.278)
Bank loans	*6*	8.500	--
Cash (used in)/provided from financing activities		**(89.588)**	**(60.278)**
NET DECREASE/INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C)	*5*	**(45.716)**	**(83.391)**
D. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	***5***	**72.703**	**156.094**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D)	***5***	**26.987**	**72.703**

NOTE 1 – ORGANISATION AND NATURE OF OPERATIONS

Teknosa İç ve Dış Ticaret Anonim Şirketi, ("Teknosa" or "the Company") was established on 3 March 2000, and is engaged in retail sales of consumer electronics through its stores and website www.teknosa.com and air conditioners and white goods through its dealers. The Company's main shareholders are Hacı Ömer Sabancı Holding A.Ş. and Sabancı Family members. As at 31 December 2018, number of personnel of the Company is 2.292 (31 December 2017: 2.570). The Company is registered in Turkey and operates under the laws and regulations of Turkish Commercial Code.

In accordance with the resolution of the Board of Directors dated 6 April 2016, the Company merged with Kliksa İç ve Dış Ticaret Anonim Şirketi ("Kliksa") which was 100% subsidiary of the Company in the previous periods through dissolving without liquidation by transferring all of its assets and liabilities fully as at 1 June 2016.

The Company operates in Turkey in 205 stores with 107.836 square meters retail space as at 31 December 2018 (31 December 2017: 110.346 square meters, 204 stores). The registered office address of the Company is as follows:

The Company's registered office address has changed with an announcement to "Kamu Aydınlatma Platformu" dated 15 February 2019 as follows:

Carrefoursa Plaza Cevizli Mahallesi. Tugay Yolu Caddesi No:67 Blok:B

Maltepe - İstanbul

The Company's shares have been traded on Borsa Istanbul since 2012.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

(i) Statement of compliance

According to the the Communiqué Serial II, No:14.1, "Principles of Financial Reporting in Capital Markets" ("the Communiqué") published in the Official Gazette numbered 28676 on 13 June 2013, the accompanying financial statements are prepared in accordance with Turkish Financial Reporting Standards ("TFRS"). TFRS is composed of Turkish Accounting Standards ("TAS"), Turkish Financial Reporting Standards and its addendum and interpretations issued by POA.

The financial statements of the Company are presented in compliance with "Announcement on Financial Statements and Disclosure Formats" announced by CMB and TAS taxanomy announced by POA.

The Company maintain their accounting records and prepares its statutory financial statements in accordance with regulations and principles issued by CMB, the Turkish Commercial Code (the "TCC"), tax legislation and the Uniform Chart of Accounts issued by the Ministry of Finance.

Approval of financial statements:

The accompanying financial statements are approved by the Company's Board of Directors on 18 February 2019. General Assembly and related legal institutions have the right to correct these financial statements and statutory financial statements.

(ii) Basis of measurement

The financial statements have been prepared on historical cost basis except for revaluation of land, building, investment properties measured at fair value and derivatives. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.1 Basis of presentation (Contiuned)

(iii) Presentation and functional currency

The financial statements of the Company are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The financial position and the results of the Company's operations have been expressed in Turkish Lira ("TL") which is the functional currency of the Company and which is the presentation currency of the financial statements

(iv) Preparation of financial statements in hyperinflationary periods

The CMB, with its resolution dated 17 March 2005 and numbered 11/367, declared that companies operating in Turkey which prepares their financial statements in accordance with the TAS, would not be subject to the application of inflation accounting effective from 1 January 2005. Accordingly, TAS 29 "Financial Reporting in Hyperinflationary Economies" was not applied since 1 January 2005.

(v) Comparative information and reclassifications of the prior periods' financial statements

The financial statements of the Company have been prepared comparatively with the prior year in order to give information about financial position and performance. If the presentation or classification of the financial statements is changed, in order to maintain consistency, financial statements of the prior periods are also reclassified in line with the related changes with respective disclosures for the major differences. The Company made reclassifications on prior period financial statements. The nature and extent of those reclassification are presented as below:

• The Company reclassified free gift cards amounting TL 7.296 previously presented under "marketing expenses" to "revenue" in its comparative statement of financial position as at 31 December 2017.

2.2 Changes in accounting policies

The accounting policies applied in the financial statements as at and for the year ended 31 December 2018 are the same as those applied in the last annual financial statements as at and for the year ended 31 December 2017.

2.2.1. TFRS 15 Revenue from Contracts with Customers

TFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced TAS 18 Revenue, TAS 11 Construction Contracts and related interpretations.

The Company has adopted TFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (1 January 2018). Accordingly, the information presented for 2017 has not been restated – in other words it is presented, as previously reported, under TAS 18, TAS 11 and related interpretations.

TFRS 15 did not have a significant effect on the recognition of the retail sales revenues.

The details the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Company's various goods and services are set out Note 2.5.

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

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2.2. TFRS 9 Financial Instruments

The Company has initially adopted TFRS 9 Financial Instruments i with a date of initial application of 1 January 2018. TFRS 9 sets out requirements for recognising and measuring of financial assets and financial liabilities. This standard replaces TAS 39 Financial Instruments: Recognition and Measurement.

The effect of adopting TFRS 9 on the carrying amounts of financial assets at 1 January 2018 has no significant impacts, as described further below.

The adoption of TFRS 9 on 1 January 2018 does not have a significant effect on the carrying amounts of financial assets, as explained in more detail below.

The following table and the accompanying notes below explain the original measurement categories under TAS 39 and the new measurement categories under TFRS 9 for each class of the Company's financial assets as at 1 January 2018.

	Original classification under TAS 39	New classification under TFRS 9	Original carrying amount under TAS 39	New carrying amount under TFRS 9
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortized cost	72.703	72.703
Trade receivables	Loans and receivables	Amortized cost	56.128	56.128
Other receivables	Loans and receivables	Amortized cost	501	501

Impact of the new impairment model

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Impairment losses related to trade and other receivables, including contract assets, are presented separately in the statement of profit or loss. As a result, the Company reclassified impairment losses amounting to TL 1.448 recognized under TAS 39, from 'general administrative expenses and cost of goods sold' to "Impairment gain/ (loss) and reversal of impairment loss determined in accordance with TFRS 9" in the statement of profit or loss for 31 December 2018.

The adoption of TFRS 9 on 1 January 2018 does not have a significant effect on the carrying amounts of financial assets, as explained in more detail below.

2.3 Changes in estimates and error

The preparation of the financial statements in compliance with TAS requires to make judgments, estimates and assumptions that affects the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Critical judgments and assumptions and estimation uncertainties in applying accounting policies have the significant effect on the amounts recognised in the financial statements.

If the changes in accounting estimates are related with a period, they are applied in the period they are related with and if the changes are related with the future periods, they are applied both in the period the change is made and prospectively in the future periods. The Company has no significant changes in the accounting estimates as at and for year ended 31 December 2018 compared to those used in previous year.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Changes in Turkish Financial Reporting Standards

A number of new standards, interpretations of and amendments to existing standards are not effective at reporting date and earlier application is permitted; however the Company has not early adopted are as follows.

TFRS 16 Leases

On 16 April 2018, POA issued the new leasing standard which will replace TAS 17 *Leases*, TFRS Interpretation 4 *Determining Whether an Arrangement Contains a Lease*, TAS Interpretation 15 *Operating Leases – Incentives*, and TAS Interpretation 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* and consequently changes to TAS 40 *Investment Properties*. TFRS 16 *Leases* eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts TFRS 15 *Revenue from Contracts with Customers*. The Company is assessing the potential impact on its financial statements resulting from the application of TFRS 16.

The Company will be benefited from IFRS 16 initial recognition exemption for low-value asset leases and short term leases which has terms less than 12 months. In this context, the Company will be recognized a right of use and lease obligations for its rental contracts for stores, warehouses, transport vehicles and head office building shall have a right of use and a lease obligation.

In this context, the future foreseen in accordance with the agreements of operating leases specified in Note 16 amounts will be brought to present values and their effects on the financial statements will be recognized.

Due to the transition to TFRS 16, there is an improvement in the Company's operating profit and an increase in financing expenses.

TFRS Interpretation 23 –Uncertainty Over Income Tax Treatments

On 24 May 2018, POA issued TFRS Interpretation 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. TAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. TFRS Interpretation 23 provides requirements that add to the requirements in TAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Interpretation is effective from 1 January 2019 with earlier application is permitted. The Company is assessing the potential impact on its financial statements resulting from the application of TFRS Interpretation 23.

Amendments to TFRS 9 - Prepayment features with negative compensation

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

The Company is assessing the potential impact on its financial statements resulting from the application of the amendments to TFRS 9.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Changes in Turkish Financial Reporting Standards (Continued)

Amendments to TAS 28- Long-term *Interests in Associates and Joint Ventures*

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

The Company does not expect that application of these amendments to TAS 28 will have significant impact on its financial statements.

The revised Conceptual Framework

The revised Conceptual Framework issued on 27 October 2018 by the POA. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the POA in developing TFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no TFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the POA with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no TFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not yet issued by POA

The following standards, interpretations of and amendments to existing IFRS standards are issued by the IASB but these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to TAS by the POA, thus they do not constitute part of TAS. Such standards, interpretations and amendments that are issued by the IASB but not yet issued by the POA are referred to as IFRS or IAS. The Company will make the necessary changes to its financial statements after the new standards and interpretations are issued and become effective under TAS.

Annual Improvements to IFRSs 2015-2017 Cycle

Improvements to IFRSs

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

IFRS 3 Business Combinations and *IFRS 11 Joint Arrangements*

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

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Changes in Turkish Financial Reporting Standards (Continued)

Improvements to IFRSs (Continued)

IAS 12 Income Taxes

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

IAS 23 Borrowing Costs

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

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement -

On 7 February 2018, IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. A company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

The Company does not expect that application of these amendments to IAS 19 will have significant impact on its financial statements.

Amendments to IAS 1 and IAS 8 - Definition of Material

In October 2018 the IASB issued Definition of Material (Amendments to IAS 1 and IAS 8). The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of the amendments to IAS 1 and IAS 8.

Amendments to IFRS 3 - Definition of a Business

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. The IASB has issued amendments to IFRS 3 Business Combinations that seek to clarify this matter. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of the amendments to IFRS 3.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies

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

Inventories and cost of goods sold

Inventories are valued at the lower of cost or net realizable value. Cost elements included in inventory are purchase costs and other transportation costs necessary to prepare the asset for its intended use. Cost is determined by the moving weighted average method. Costs related to the shipment of the inventories from main warehouse and the region warehouses to the stores are booked as expense. Net realizable value is the estimated selling price in the ordinary course of business, less the selling expenses (Note 9).

Benefits obtained from suppliers in the normal course of business, such as rebates, stock protection and similar benefits are deducted from the cost of the related inventory item and are associated with cost of goods sold.

Volume Rebates: Represent the premiums received from suppliers based on the purchases made by the Company.

Stock Protection: Stock protection is charged to suppliers in order to increase the sales performance of the older versions of certain products when newer versions are introduced.

Sales Support Premiums: The Company receives sales support premiums depending on the sales performance on certain days for certain products.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value (Note 11). Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

Property, plant and equipment and depreciation

Property, plant and equipment except for lands and building are measured at cost less accumulated depreciation and impairment losses.

The Company has opted for the option of measuring the land and buildings in the tangible fixed assets by revaluation method. The revalued amount is the fair value at the revaluation date, less accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment except for land are depreciated on a straight-line basis (Note 11). The useful lives for property, plant and equipment are as follows:

	Useful lives (year)
Buildings	50
Vehicles	5
Machinery and equipments	4 – 15
Furniture and fixtures	5 – 10
Leasehold improvements	5 – 10

Useful lives of property and equipment are audited at each reporting date and necessary adjustments are applied if necessary.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Intangible assets and amortization

Intangible assets comprise licenses and rights and computer software. Intangible assets are disclosed with their net value which is acquisition cost less accumulated amortization (Note 12). The useful lives of intangible assets are as follows:

	Useful lives (year)
Licences, rights and computer softwareı	3 - 15

Impairment of assets

The Company reviews all assets with indefinite useful lives at each balance sheet date in order to see if there is a sign of impairment on the stated asset. The Company management has identified stores which are operating more than 1 year generates operating profit/ (loss) before income tax except outlets. For the relevant stores, they have made discounted cash flow projections for 10 years. As a result of the study, it has been determined that the Company does not have a provision for the impairment of stores at the end of 2017. If any such indication exists, then the asset's recoverable amount is compared with the carrying amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss and other comprehensive income.

Besides, the Company management accounts for provision for the impairment of the tangible assets of the stores, which are expected to be closed down as of the reporting date.

Leases - the Company as the lessee

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Leases - the Company as the lessor

Operating leases

The Company leases certain investment properties which the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased investmnet property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Provisions, contingent assets and liabilities

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Tax

Tax expense comprises current and deferred tax.

Current tax

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

The current tax liability also includes tax liabilities arising from dividend distribution notifications. The deduction of current tax assets and liabilities can only be made when certain conditions are met.

Deferred tax

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 are used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. 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. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and deferred income tax liabilities related to income taxes levied by the same taxation authority and are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

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

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Tax (Continued)

Current and deferred tax for the period

Current and deferred tax are recognized as in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity.

Employee benefits

Retirement pay provision

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

Provision for employment termination benefits represents the present value of the estimated total provision of the future probable obligation of the Company arising from the retirement of the employees calculated in accordance with the Turkish Labour Law. All calculated actuarial gains and losses are accounted for under other comprehensive income (Note 14).

Earnings per share

Earnings per share disclosed in the statement of comprehensive income are determined by dividing net income by the weighted average number of shares that have been outstanding during the related period concerned (Note 25). In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them retroactive effect for the year in which they were issued and for each earlier period.

Foreign currency transactions

Foreign currency transactions during the period have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into Turkish Lira at the exchange rates prevailing at the balance sheet dates. Exchange gains or losses arising from the settlement and translation of foreign currency items have been included in the statement of profit or loss.

	31 December 2018	31 December 2017
USD	5,2609	3,7719
Euro	6,0280	4,5155

Revenue recognition

General model for accounting of revenue

In accordance with TFRS 15, a five-stage approach is followed in recognizing revenue for all contracts with customers.

Step 1: Identify the contract with a customer

A contract with a customer is in the scope of the new standard when the contract is legally enforceable and certain criteria are met. If the criteria are not met, then the contract does not exist for purposes of applying the general model of the new standard, and any consideration received from the customer is generally recognized as a deposit (liability). Contracts entered into at or near the same time with the same customer (or a related party of the customer) are combined and treated as a single contract when certain criteria are met.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Revenue recognition (Continued)

Step 2: Identify the performance obligations in the contract

The Company defines 'performance obligation' as a unit of account for revenue recognition. The Company assesses the goods or services promised in a contract with a customer and identifies as a performance obligation either a:

(a) good or service (or a bundle of goods or services) that is distinct; or

(b) series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

An entity may define a contract or a service separately from other contractual obligations and define it as a different commodity or service if the customer makes use of such goods or services alone or in combination with other resources available for use. A single contract may contain promises to deliver to the customer more than one good or service. At contract inception, an entity evaluates the promised goods or services to determine which goods or services (or bundle of goods or services) are distinct and therefore constitute performance obligations.

Step 3: Determine the transaction price

When determining the transaction price, an entity assumes that the goods or services will be transferred to the customer based on the terms of the existing contract. In determining the transaction price, an entity considers variables considerations and significant financing components.

<u>Significant financing component</u>

To estimate the transaction price in a contract, the Company adjusts the promised amount of consideration to reflect the time value of money if the contract contains a significant financing component. Significant financing component exists if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the Company with a significant benefit of financing the transfer of goods or services to the customer. The Company does not have sales transactions which includes significant financing component.

<u>Variable consideration</u>

An entity assesses whether discounts, rebates, refunds, rights of return, credits, price concessions, incentives, performance bonuses, penalties, or similar items may result in variable consideration.

Step 4: Allocate the transaction price to the performance obligations in the contract

If distinct goods or services are delivered under a single arrangement, then the consideration is allocated based on relative stand-alone selling prices of the distinct goods or services (performance obligations). If directly observable stand-alone selling prices are not available, the total consideration in the service contracts is allocated based on their expected cost plus a margin.

Step 5: Recognize revenue when or as the entity satisfies a performance obligation

An entity recognizes revenue over time when one of the following criterias are met:

- The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs
- The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Revenue recognition (Continued)

- The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date

For each performance obligation that is satisfied over time, an entity applies a single method of measuring progress toward complete satisfaction of the obligation. The objective is to depict the transfer of control of the goods or services to the customer. To do this, an entity selects an appropriate output or input method. It then applies that method consistently to similar performance obligations and in similar circumstances.

If a performance obligation is not fulfilled in time, then the Company recognizes revenue when the control of goods or services is transferred to the customer.

In cases where the cost to be incurred by the Company exceeding the expected economic benefits to be incurred to fulfill the contractual obligations exceeds the expected economic benefit, the Company provides a provision in accordance with TAS 37 Provisions, Contingent Liabilities and Contingent Assets.

<u>Contract modifications</u>

The Company recognizes a contract modification as a separate contract if the modification results in a promise to deliver additional goods or services. If the goods or services are distinct, then the entity accounts for the modification as if it were a termination of the existing contract and the creation of a new contract. If the modification to the contract does not add distinct goods or services, then the entity accounts for it on a combined basis with the original contract, as if the additional goods or services were part of the initial contract.

i) Retail sales revenues

The Company's retail sales revenue is recognized when a customer obtains control of the goods. Determining the timing of the transfer of control – at a point in time or over time – requires judgment. Since the Company generally carries out retail sales with cash or credit cards and customers obtain control of the goods as sales are realized, revenue is recognized at the time of sale. In case of the control period does not occur at the same time, revenue is recognized as revenue in the following period.
TFRS 15 did not have a significant effect on the recognition of the Company's retail sales revenues.

ii) Turnover premiums and supplier discounts

The Company turnover premiums income from supplier contracts and supplier discounts are accounted for an accrual basis in the period of the Company benefits from premiums and deductions with the cost of goods sold. TFRS 15 did not have a significant effect on the recognition of the Company's turnover premiums and supplier discounts.

iii) Customer gift checks

Gift vouchers sold by the Company to its customers are classified under other current liabilities section as deferred revenue. Moreover, gift vouchers are recorded as income as they are used by the customers. Related gift vouchers are used by the customer, related amount which is classified as deferred income, is recorded as sales revenue. The Company recognizes income from the gift checks by estimating the portion which will not be used by the customers based on the historic data. Gift vouchers that are not expected to be used by the customers are classified under deferred revenue in the financial statements.

TFRS 15 did not have a significant effect on the recognition of the Company's customer gift checks.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Warranty expenses and provisions

Provision for warranty expenses for the air-conditioners for which the warranty liability belongs to the Company is calculated based on statistical information for possible future warranty services. The warranty liability for the consumer electronics retail sales of the Company belongs to the manufacturer or to the importer companies. On the other hand, there is no significant liability of the Company for the extended warranty period.

Business combinations

Business combinations are accounted for by using the acquisition method. The consideration transferred in a business combination includes the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. Acquisition related costs are expensed as they are incurred. The identifiable assets acquired and the liabilities assumed are measured at their acquisition-date fair values. Excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the business combination cost is accounted for as goodwill. If this amount is lower than the market value of the net assets of the subsidiary acquired, the excess amount is recognized directly in the income statement.

Segment reporting

The management has determined the operating segments based on the reports used in taking strategic decisions by the Board of Directors and the executive committee (includes general manager and the assistant general managers).

The executive committee evaluates the business in terms of business unit on the basis of retail and dealer (İklimsa) group.

The Board of Directors and the executive committee monitor the performance of the operating segments based on a measure of adjusted Earnings Before Interest, Tax, Employment Termination Benefits, Impairment profit / (loss) and Reversals of Impairment Losses in Accordance with IFRS 9, Other Expenses From Operating Activities, Depreciation and Amortization ("Adjusted EBITDA"). This measurement of the operating segments does not consider the effects of nonrecurring income and expenses. Interest income and expenses are not allocated to operating segments since they are monitored by the central treasury department of the Company. Adjusted EBITDA is not a measure of operating income, operating performance or liquidity under CMB Financial Reporting Standards.

The Company presented Adjusted EBITDA in the notes to the financial statements besides the requirements of segment reporting since it is used by certain readers in their analyses (Note 3).

Share capital and dividends

Ordinary shares are classified as equity. Dividends on ordinary shares are recognized in equity in the period in which they are declared.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Related parties

Parties are considered related to the Company if:

(a) directly, or indirectly through one or more intermediaries, the party:

(i) controls, is controlled by, or is under common control with the Company (this includes parent, subsidiaries and fellow subsidiaries);

(ii) has an interest in the Company that gives it significant influence over the Company; or

(iii) has joint control over the Company;

(b) the party is an associate of the Company;

(c) the party is a joint venture in which the Company is a venturer;

(d) the party is member of the key management personnel of the Company and its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled or significantly influenced by, or for which significant voting power in such entity resides with directly or indirectly, any individual referred to in (d) or (e);

(g) the party is a post-employment benefit plan for the benefit of employees of the Company, or of any entity that is a related party of the Company.

Events after the reporting period

It refers to the events occurring in favor of or against the Company between the reporting date and the date of authorization for the publication of the financial statements.

- there is new evidence that events exist at the reporting date; and
- there is evidence to show that the relevant events occurred after the reporting date(events after the reporting period which is not require to ajust)

Events after the reporting period are those events that occur between the balance sheet date and the date when the financial statements are authorized for issue, even if they occur after an announcement related with the profit for the year or public disclosure of other selected financial information. The Company adjusts the amounts recognized in its financial statements if adjusting events occur after the balance sheet date.

Financial Instrument

i) Recognition and measurement

Trade receivables and debt securities are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Financial Instrument (Continued)

ii) Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment: Policy applicable from 1 January 2018

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio levela because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management; the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Financial Instrument (Continued)

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets. inancial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Additionally, for a financial asset acquired at a discount or Premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Since the principal is the present value of expected cash flows, trade receivables and other receivables meets the solely payments of principal and interest criteria. It is managed in accordance with the business model based on collection of these receivables.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

The following accounting policies apply to the subsequent measurement of financial assets

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Financial Instrument (Continued)

Financial assets – Policy applicable before 1 January 2018

The Company classifies its financial assets in the following categories: loans and receivables. The classification depends on the purpose for which the financial assets were acquired.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise trade receivables and cash and cash equivalents in the balance sheet.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading as such on initial recognition.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are record with their fair value and evaluate with fair value as of balance sheet date. Change in the fair value is recognized in income statement. Recognized income or loss includes the paid interest for the financial liabilities. As of the balance sheet date, the Company does not have any financial liabilities at fair value through profit or loss.

ii) Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs.Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Financial Instrument (Continued)

iii. Derecognition

Derecognition - Policy applicable from 1 January 2018

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and t he cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Derecognition - Policy applicable before 1 January 2018

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

iv. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

v. Derivative financial instruments

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

Gains or losses arising from an increase or decrease in the fair value of derivatives that do not meet the requirements for hedge accounting are recognized directly in profit or loss. As at reporting date, the Company does not have derivative financial instrument.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Financial Instrument (Continued)

vi. *Impairment of financial assets*

a. Non-derivative financial assets - Policy applicable from 1 January 2018

Financial instruments and contract assets

The Company recognizes loss allowances for the expected credit losses of the following items under TFRS 9:

- financial assets measured at amortized cost;

The Company measures loss allowances at an amount equal to lifetime expected credit losses, except for the following, which are measured as 12-month expected credit losses:

- bank balances for which credit risk has not increased significantly since initial recognition.

Loss allowances for trade receivables, other receivables, other assets and contract assets are always measured at an amount equal to lifetime expected credit losses.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its obligations arising from lease contracts to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or the financial asset is more than 90 days past due.
- the borrower is unlikely to pay its obligations arising from retail sales, turnover premiums contracts and supplier discounts to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or the financial asset is more than 360 days past due.

The Company considers bank balances to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Lifetime expected credit losses are that result from all possible default events over the expected life of a financial instrument 12-month expected credit losses are that result from possible default events within the 12 months after the reporting date.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Company is exposed to credit risks.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Financial Instrument (Continued)

vi. *Impairment of financial assets (continued)*

a. Non-derivative financial assets - Policy applicable from 1 January 2018

Measurement of expected credit losses:

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. Expected credit losses are discounted at the effective interest rate of the financial asset. For trade receivables, other receivables, other assets and contract assets the Company applies the simplified approach to providing for expected credit losses (TFRS 9 requires the use of the lifetime expected loss provision for all trade receivables). The Company performed the calculation of expected credit losses rates separately for receivables arising from retail sales, turnover premium contracts and receivables from trade centers. The expected credit losses were calculated based on actual credit loss experience over the past years.

Exposures within each group were segmented based on common credit risk characteristics such as delinquency status.

Actual credit loss experience was adjusted to reflect differences between economic conditions during the period over which the historical data was collected, current conditions and the Company's view of economic conditions over the expected lives of the receivables. Future collection performance of receivables are estimated by considering general economic conditions to incorporate forward looking information to the expected credit loss calculations.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 360 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial re-organization; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses of trade and other receivables, including contract assets, are presented as a separate item in the statement of profit or loss.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Financial Instrument (Continued)

vi. *Impairment of financial assets (continued)*

Financial assets are written off when there is no reasonable expectation of recovery (such as a debtor failing to engage in a repayment plan with the Company). Where trade receivables, other receivables, other assets and contract assets have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

b. Non-derivative financial assets - <u>Policy applicable before 1 January 2018</u>

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

For financial assets presented at amortized cost, if the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognized impairment loss is cancelled in income statement, however it could not exceed the amortized cost of the asset at the date impairment cancelled.

For available-for-sale equity instruments, any impairment loss recognized in income statement in prior periods could not be reversed in income statement. The fair value gain arising from impairment loss is accounted for in other comprehensive income and is classified under the heading of revaluation provision related to investments. Impairment loss on available-for-sale debt securities is reversed in income statement in subsequent periods if the increase in the fair value of the investment is attributable to an event occurring after the impairment loss is recognized.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Estimates

Critical judgments in applying the Company's accounting policies

The Company management has made the following judgments that have the most significant effect on the amounts recognised in the financial statements.

Useful lives of property and equipment and intangible assets

Items of property and equipment and intangible assets except for land and buildings are measured at cost less accumulated depreciation and impairment losses, if any. Depreciation is recognised on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Impairment of property, plant and equipment and intangible assets

The Company assesses at each reporting date to determine whether there is any indication of impairment. If the stores which are operating more than 1 year generates operating profit/ (loss) before income tax lower than the planned performance result, this situation is assessed as an objective evidence for impairment. If any such indication exists, then the asset's recoverable amount is compared with the carrying amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. If the carrying amount of an asset or any cash generating unit that the asset belongs to is higher than its net realizable value, the value of the asset has impaired. Additionally, the Company recognises allowance for impairment for the tangible assets of the stores for which the Company management has expected to close down. The allowance for impairment is calculated with rates applied on the net carrying amount as at the reporting date. The applied rate is 100% for the leasehold improvements and 50% for the equipment. The Company recognised allowance on property, plant and equipment amounting to TL 2.284 as at 31 December 2018 (31 December 2017: TL 5.189).

Allowance on inventories

In accordance with the accounting policy, inventories are stated at the net realisable value ("NRV"). The Company measures the products with selling prices lower than its cost at lower of cost or NRV. NRV, is the value after deducting the estimated expenditures to be made to bring the stocks at sale at the estimated selling price.

The Company makes aging analysis for its inventories based on certain date ranges from the acquisition date. Impairment is calculated for the old stock over 180 days with different rates applied for each date range based on the aging analysis as at reporting date. The Company recognised allowance on inventories amounting to TL 14.949 as at 31 December 2018 (31 December 2017: TL 17.312). (Note 9)

Deferred tax assets

The Company recognises deferred tax asset or liability in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes in accordance with TAS and the amounts used for taxation purposes. The Company has deferred tax assets arising from carried forward tax losses and other temporary differences deductible from its potential future profits. The Company management estimates the amount of deferred tax assets which is fully and partially recoverable based on the current circumstances and available information. During the assessment, projections of future taxable income, current year and carried forward losses, potential expiration dates for utilisation of tax losses and other tax assets, and tax planning strategies are considered.

The Company revalued deferred tax assets arising from prior years losses as at 31 December 2018, th company reversed the deferred tax assets amounting to TL 17.237 arising from 2015 and 2016 years losses.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Estimates

Accounting of gift checks

The Company recognises income from the gift checks by estimating the portion which will not be used by the customers based on the historic data. As at 31 December 2018, the amount offset from the deferred revenue from the gift checks recognised in the financial statement is amounting to TL 5.152 (31 December 2017: TL 4.463)

Compliance with the financial requirements

The Company recognised net loss amounting to TL 64.609 for the year ended 31 December 2018. As at 31 December 2018, accumulated losses are amounting to TL 187.812. As at 31 December 2018, negative equity of the Company which includes the prior years' losses is amounting to TL 103.078.

In 2016 the Company management closed the nonperforming stores considering the future profitability factors, and have further taken necessary actions to reduce the rent expenses in the stores and the operational costs in the headquarter, manage clerance of its inventories to reduce the cost of inventories. The Company recognised the expenses and provisions related to these actions taken in its financial statements. As a result of the actions taken, the Company started to generate performance results which improve the negative equity status.

In addition to this, the Company made an announcement on Public Disclosure Platform on 18 February 2019 in accordance with the CMB's principal decision numbered 11/352 as detailed below:

"The Company issued its financial statements which are prepared in accordance with the CMB regulations as at 31 December 2018. The Company's equity in these financial statements amounting to full TL (-) 103.078.000 and the brand value which is the off-balance sheet asset of the Company amounting to full TL 315.159.000 are considered in accordance with the CMB's principal decision numbered 2014/11. However, there is no change in the negative equity status of the Company in these financial statements which are prepared in accordance with above mentioned the CMB regulations. As a result, statement of financial position is prepared in accordance with the related article of TCC 376 based on the CMB's principal decision numbered 2014/11

The brand value is included in the statement of financial position prepared in accordance with the related article of TCC 376. Equity of this statement in the financial position prepared in accordance with the related article of TCC 376 is amounting to full TL (+) 253.915.266 This indicates that the Company maintains its share capital amounting to full TL 110.000.000."

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

NOTE 3 – SEGMENT REPORTING

The Company applies TFRS 8 starting from 1 January 2009 and determined the reportable segments based on the internal management reports which are regularly reviewed by the decision maker.

In order to take the decisions about the allocation of resources to the operating segments and evaluate the performance of these segments, the decision maker reviews the results and the operations by sales channel. The Company's sales channel are as follows: Electronics retail sales, and sales of air conditions and white goods through dealers. These sales are also reviewed as stores and dealers (İklimsa). In addition, assets and liabilities are not included in the segment reporting, since they are not regularly presented to the decision maker and are not reviewed in as a part of segment reporting.

Details of the segment reporting according to the internal management reports are as follows:

	1 January – 31 December 2018		
	Retail stores	**Dealer group**	**Total**
Total segment income	3.222.712	254.308	3.477.020
Income from third party customers	**3.222.712**	**254.308**	**3.477.020**
Adjusted EBIT	**139.785**	**18.579**	**158.364**

	1 January – 31 December 2017		
	Retail stores	**Dealer group**	**Total**
Total segment income	3.150.256	240.303	3.390.559
Income from third party customers	**3.150.256**	**240.303**	**3.390.559**
Adjusted EBIT	**142.241**	**30.531**	**172.772**

	1 January – 31 December 2018	**1 January – 31 December 2017**
Reconciliation of Adjusted EBIT with profit before taxes:	**158.364**	**172.772**
Depreciation and amortisation expenses	(32.013)	(33.624)
Finance costs	(98.088)	(60.278)
Income/(expenses) from investing activities	(6.495)	(458)
Other expenses from operating activities- net	(72.852)	(48.655)
Impairment profit / (loss) and Reversals of Impairment Losses in Accordance with TFRS 9	279	(1.448)
Provision for employee termination benefits	(3.681)	(3.932)
Profit/(loss) before tax	**(54.491)**	**24.377**

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

NOTE 4 – RELATED PARTY DISCLOSURES

The related parties listed below are the companies directly or indirectly controlled by Hacı Ömer Sabancı Holding A.Ş., the parent company of Teknosa or the companies over which Hacı Ömer Sabancı Holding A.Ş. has significant influence.

	31 December 2018	
	Receivables	Payables
	Current	Current
Balances with related parties	Trading	Trading
Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş.	1.415	450
Brisa Bridgestone Sabancı Lastık San.Ve Tic.A.Ş.	81	--
Çimsa Çimento San. ve Tic. A.Ş.	59	--
Akçansa Çimento San. ve Tic. A.Ş.	51	--
Hacı Ömer Sabancı Holding A.Ş.	51	--
Enerjisa Enerji A.Ş. ve Bağlı Ortaklıkları	49	218
Avivasa Emeklilik ve Hayat A.Ş.	39	--
Akbank T.A.Ş.	16	3
Yünsa Yünlü San. Ve Tic. A.Ş.	3	--
Bimsa Uluslararası İş Bilgi ve Yönetim Sis. A.Ş.	--	3.914
Aksigorta A.Ş.	--	152
Temsa Ulaşım Araçları Sanayi ve Ticaret A.Ş.	--	1
	1.764	**4.738**

	31 December 2017	
	Receivables	Payables
	Current	Current
Balances with related parties	Trading	Trading
Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş.	1.146	--
Avivasa Emeklilik ve Hayat A.Ş.	653	1
Akbank T.A.Ş.	402	--
Hacı Ömer Sabancı Holding A.Ş.	158	--
Brisa Bridgestone Sabancı Lastık San.Ve Tic.A.Ş.	95	--
Enerjisa Enerji A.Ş. ve Bağlı Ortaklıkları	66	31
Akçansa Çimento San. ve Tic. A.Ş.	55	--
Aksigorta A.Ş.	20	140
Bimsa Uluslararası İş Bilgi ve Yönetim Sis. A.Ş.	11	3.123
Çimsa Çimento San. ve Tic. A.Ş.	4	--
Temsa Global Sanayi ve Ticaret A.Ş.	--	1
	2.610	**3.296**

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

NOTE 4 – RELATED PARTY DISCLOSURES (Continued)

Deposit accounts in Akbank T.A.Ş.	31 December 2018	31 December 2017
Demand deposit	8.756	10.702
	8.756	**10.702**

Credit card receivables in Akbank T.A.Ş.	31 December 2018	31 December 2017
Credit card receivables	2.245	3.989
	2.245	**3.989**

	1 January – 31 December 2018		
Transactions with related parties	**Sale of goods**	**Rent expense**	**Other expenses**
Akbank T.A.Ş.	6.410	--	--
Carrefoursa Carrefour Sabancı Tic. Merkezi A.Ş.	6.239	2.455	1.084
Avivasa Emeklilik ve Hayat A.Ş.	1.342	--	--
Akçansa Çimento San. ve Tic. A.Ş.	157	--	--
Çimsa Çimento San.ve Tic.A.Ş.	114	--	--
Brisa Bridgestone Sabancı Lastik San.Ve Tic.A.Ş.	106	--	--
Enerjisa Enerji A.Ş. ve Bağlı Ortaklıkları	77	--	2.143
H.Ö. Sabancı Holding A.Ş.	73	--	121
Aksigorta A.Ş.	52	--	(1.006)
Temsa İş Makinaları İmalat Pazarlama ve Satış A.Ş.	4	--	--
Yünsa Yünlü San. Ve Tic. A.Ş.	3	--	--
Kordsa Teknik Tekstil A.Ş.	1	--	--
Bimsa Uluslararası İş Bilgi ve Yönetim Sis. A.Ş.	--	--	5.597
	14.578	**2.455**	**7.939**

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

NOTE 4 – RELATED PARTY DISCLOSURES (Continued)

	1 January – 31 December 2017		
Transactions with related parties	**Sale of goods**	**Rent expense**	**Other expenses**
Akbank T.A.Ş.	14.808	--	--
Carrefoursa Carrefour Sabancı Tic. Merkezi A.Ş.	1.447	4.814	156
Aksigorta A.Ş.	384	--	1.607
Avivasa Emeklilik ve Hayat A.Ş.	185	--	--
Akçansa Çimento San. ve Tic. A.Ş.	163	--	--
Brisa Bridgestone Sabancı Las. San. ve Tic. A.Ş.	123	--	--
Enerjisa Enerji A.Ş. ve Bağlı Ortaklıkları	111	--	4.133
Çimsa Çimento San.ve Tic.A.Ş.	48	--	--
Temsa İş Makinaları İmalat Pazarlama ve Satış A.Ş.	15	--	--
Bimsa Uluslararası İş Bilgi ve Yönetim Sis. A.Ş.	13	--	3.356
H.Ö. Sabancı Holding A.Ş.	6	--	31
Philip Morris Sabancı Pazarlama Satış A.Ş.	3	--	--
	17.306	**4.814**	**9.283**

The Company's key management has been identified as the general manager and assistant general managers. Remuneration to key management personnel consists of wages, premiums, pensions, health insurance and life insurance payments. Remunerations of key management personnel for the years ended are as follows:

	1 January – 31 December 2018	1 January – 31 December 2017
Salaries and other benefits	6.577	4.967
	6.577	**4.967**

NOTE 5 – CASH AND CASH EQUIVALENTS

The details of cash and cash equivalents as at 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Cash	2.728	6.082
Demand deposit	12.562	33.543
Time deposit	--	9.757
Credit card slip receivables	11.697	23.321
	26.987	**72.703**

As at 31 December 2018 The Company does not have any time deposits, As at 31 December 2017 average effective interest rate on TL denominated time deposits is 13,4%, maturity of time deposits is 4 day.

The Company does not have any blocked deposits as at 31 December 2018 and 2017.

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

NOTE 6 – FINANCIAL LIABILITIES

The details of financial liabilities as at 31 December 2018 and 2017 are as follows:

	31 December 2018			
	Currency	**Interest Rate**	**Amount**	**Maturity**
Bank loans	TL	%24	8.500	2 Ocak 2019
Short term financial liabilities			**8.500**	

The Company does not have any short term financial liabilities as at 31 December 2017.

NOTE 7 - TRADE RECEIVABLES AND PAYABLES

The details of trade receivables as at 31 December 2018 and 2017 are as follows:

Short term trade receivables

	31 December 2018	**31 December 2017**
Trade receivables	46.171	52.930
Notes receivables	27.486	13.010
Due from related parties (Note 4)	1.764	2.610
Allowance for doubtful receivables (-)	(9.646)	(12.422)
	65.775	**56.128**

The average maturity of the Company's trade receivables is 1-7 days for retail receivables and 79 days for dealer groups. (31 December 2017: For retail: 1-7 days, 50 days for dealer receivables). As of 31 December 2018, the Company does not apply overdue interest on trade receivables. (31 December 2017: None).

The Company's exposure to credit and foreign currency risk and impairment for trade receivables are disclosed in Note 26.

The movement of the allowance for doubtful receivables for the years ended 31 December 2018 and 2017 is as follows:

	2018	**2017**
As at 1 January	12.422	10.974
Charge for the period	--	1.452
Deducated receivables(*)	(2.497)	--
Reversals	(279)	(4)
	9.646	**12.422**

(*) The Company has recognised provisions for the mentioned amount in prior periods and netted of relevant receivable and doubtful receivable accounts in the current period due to the fact that it is not possible to collect those amounts anymore.

As of 31 December , the Company obtained the collaterals listed below for the checks, notes and trade receivables:

	31 December 2018	**31 December 2017**
Letters of guarantees received	65.340	49.730
Mortgages	14.382	14.892
	79.722	**64.622**

Fair value of the collaterals which the Company is permitted to sell or repledge without the default by the owner of the collateral is TL 79.722 (31 December 2017: TL 64.622). As at the reporting date, there are not any collaterals or mortgages which are sold or re-pledged by the Company.

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

NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

Short term trade payables:

	31 December 2018	31 December 2017
Trade payables	771.179	669.731
Due to related parties (Note 4)	4.738	3.296
Expense accruals	1.225	1.917
	777.142	**674.944**

As at 31 December 2018, the Company offset income accruals from its suppliers amounting to TL 34.432 with trade payables (31 December 2017: TL 24.015). Average payment terms of trade payables is 83 days (31 December 2017: 82 days). The Company does not have payments on a monthly basis for late interest as of 31 December 2018. (31 December 2017: None).

NOTE 8 – OTHER RECEIVABLES AND PAYABLES

The details of other receivables and other payables as at 31 December 2018 and 2017 are as follows:

Other receivables:

	31 December 2018	31 December 2017
Deposits and guarantees given	581	501
	581	**501**

Other payables:

	31 December 2018	31 December 2017
Deposits and guarantees received	1.990	1.456
	1.990	**1.456**

NOTE 9 - INVENTORIES

The details of the inventories as at 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Trading goods	506.728	434.724
Goods in transit	898	1.084
Allowance for impairment on inventories (-)	(14.949)	(17.312)
	492.677	**418.496**

As at 31 December 2018 cost of goods solds reflected to the statement of profit and loss amounting to TL 2.818.263 (31 December 2017: TL 2.764.882). As at 31 December 2018 and 2017 the provisions for impairment on inventories are expensed as cost of goods sold (Note 19).

The movements of allowance for inventories for the year ended at 31 December 2018 and 2017 are as below:

Allowance for inventories:	**2018**	**2017**
As at 1 January	(17.312)	(16.763)
Change of the period	(2.349)	(10.335)
Current year reversal	4.712	9.786
As at 31 December	**(14.949)**	**(17.312)**

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

NOTE 10 – PREPAID EXPENSES AND DEFERRED REVENUE

The details of prepaid expenses as at 31 December 2018 and 2017 are as follows:

Short-term prepaid expenses	**31 December 2018**	**31 December 2017**
Short term prepaid expenses	5.039	4.702
Advances given for inventories	964	916
	6.003	**5.618**

Long-term prepaid expenses	**31 December 2018**	**31 December 2017**
Long term prepaid expenses	265	432
	265	**432**

The details of the deferred revenue as at 31 December 2018 and 2017 are as follows:

Short-term deferred revenue	**31 December 2018**	**31 December 2017**
Income from gift checks	7.380	9.222
Advances received	5.002	8.341
Other	150	97
	12.532	**17.660**

NOTE 11 – INVESTMENT PROPERTY

The movement of investment properties and related accumulated depreciation for the year ended 31 December 2018 and 2017 are as follows:

Cost	**Land**	**Buildings**	**Total**
Balance at 1 January 2018	6.529	4.791	11.320
Revaluation impairment (*)	(1.234)	(33)	(1.267)
Balance at 31 December 2018	**5.295**	**4.758**	**10.053**
Accumulated depreciation			
Balance at 1 January 2018	--	(1.124)	(1.124)
Charge for the period	--	--	--
Balance at 31 December 2018	**--**	**(1.124)**	**(1.124)**
Net carrying amount as at 1 January 2018	**5.296**	**3.634**	**8.929**
Net carrying amount as at 31 December 2018	**5.296**	**3.634**	**8.929**

Cost	**Land**	**Buildings**	**Total**
Balance at 1 January 2017	6.529	4.791	11.320
Balance at 31 December 2017	**6.529**	**4.791**	**11.320**
Accumulated depreciation			
Balance at 1 January 2017	--	(1.124)	(1.124)
Charge for the period	--	--	--
Balance at 31 December 2017	**--**	**(1.124)**	**(1.124)**
Net carrying amount as at 1 January 2017	**6.529**	**3.667**	**10.196**
Net carrying amount as at 31 December 2017	**6.529**	**3.667**	**10.196**

NOTE 11 – INVESTMENT PROPERTY (Continued)

There is no amortization charge as of 31 December 2018. (31 December 2017: None)

The Company generates rental income by TL 351 (2017: TL 408) from its investment property, which is leased by an operating lease agreement. Direct operating costs arising from the investment property is amounting to TL 784 (2017: TL 709). Operating expenses which are not related to the Teknosa store are distributed to lessees.

Land and buildings which are recognised as property, plant and equipment and investment property were revalued by an independent appraisal firm named Avrupa Gayrimenkul Değerleme ve Danışmanlık A.Ş. on 7 January 2019.

The appraisal firm is an accredited independent firm licensed by CMB, and have appropriate qualifications and recent experience in appraising properties in the relevant locations. The fair value of the land was determined based on the market comparable approach that reflects the recent transaction prices for similar properties. The fair value of the buildings determined based on the highest and best of the current value in use.

(*) Revaluation loss on land and buildings which are classified in investment property amounting to TL 1.234 and TL 33 are recognised in expenses from investing activities, respectively. Fair value of related land and buildings is level 2.

As at 31 December 2018, total insurance amount over investment properties is TL 12.472(31 December 2017: TL 15.087). 31 December 2018 and 31 December 2017 there is no mortgage on investment properties.

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

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment and related accumulated depreciation for the year ended 31 December 2018 are as follows:

Cost	Land	Building	Machinery and equipment	Vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
Balance at 1 January 2018	**26.505**	**6.363**	**369**	**57**	**80.926**	**104.128**	**1.150**	**219.498**
Additions	--	--	--	--	4.923	6.257	12.587	23.767
Revaluation surplus (***)	5.546	40	--	--	--	--	--	5.586
Disposals	--	--	--	--	(6.133)	(12.914)	--	(19.047)
Impairments	--	--	--	--	(1.084)	(6.586)	--	(7.670)
Reversal of impairments	--	--	--	--	1.287	10.213	--	11.500
Transfers from construction in progress	--	--	--	--	639	767	(3.683)	(2.277)
Balance at 31 December 2018	**32.051**	**6.403**	**369**	**57**	**80.558**	**101.865**	**10.054**	**231.357**
Accumulated depreciation and impairment losses								
Balance at 1 January 2018	**--**	**(3.835)**	**(352)**	**(46)**	**(58.366)**	**(71.978)**	**--**	**(134.577)**
Change for the period	--	(57)	(17)	(7)	(9.206)	(9.923)	--	(19.210)
Disposals	--	--	--	--	5.939	7.621	--	13.560
(Allowance for) / reversal of impairment, net (**)	--	--	--	--	457	(2.003)	--	(1.546)
Balance at 31 December 2018	**--**	**(3.892)**	**(369)**	**(53)**	**(61.176)**	**(76.283)**	--	**(141.773)**
Net carrying amount at 1 January 2018	**32.051**	**2.528**	**17**	**11**	**22.560**	**32.150**	**1.150**	**84.921**
Net carrying amount at 31 December 2018	**32.051**	**2.511**	**--**	**4**	**19.382**	**25.582**	**10.054**	**89.584**

(**) As of 31 December 2018, the impairment loss calculated for property, plant and equipment is TL 7.670 (2017: TL 6.124) Amount of impairment reversed during the period is TL 11.500 (2017: TL 935). Included in marketing expenses of TL 9.029 (2017: TL 11.053) and general administrative expenses of TL 10.181 (2017: TL 9.856) are amortization charges.

(***) The Company's freehold land and building are stated at their revalued amounts, being the fair value at the dale of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Company's freehold land and building as at 7 January 2019 were performed by Avrupa Gayrimenkul Değerleme ve Danışmanlık A.Ş., independent valuers not related to the Company. Avrupa Gayrimenkul Değerleme ve Danışmanlık A.Ş. has been authorized by and a member of CMB, and they have appropriate qualifications and recent experience in the fair value measurement of properties in the relevant locations. The fair value of the freehold land was determined based on the market comparable approach that reflects recent transaction prices for similar properties. Gains on revaluation of land used by the Company amounting TL 5.546 has been accounted under gains on revaluation and remeasurement account under equity, Gains on revaluation of buildings used by the Company amounting TL 40 has been accounted under profit and losses. Revaluation loss for investment property part of the relevant land and building amounting TL 1.234 and TL 33 respectively has been accounted under retained earnings (Note 11 and 2.2). Fair value of the related land and building is level 2.

As at 31 December 2018, total insurance amount over property, plant and equipment is TL 31.360 (31 December 2017: TL 46.978). As at 31 December 2018 and 31 December 2017 there is no mortgage on property, plant and equipment.

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

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued)

The movement of property, plant and equipment and related accumulated depreciation for the year ended 31 December 2017 are as follows:

Cost	**Land**	**Building**	**Machinery and equipment**	**Vehicles**	**Furniture and fixtures**	**Leasehold improvements**	**Construction in progress**	**Total**
Balance at 1 January 2017	**26.505**	**6.323**	**339**	**57**	**83.537**	**97.844**	**341**	**214.946**
Additions	--	40	--	--	4.744	7.214	4.582	16.580
Disposals	--	--	(1)	(1)	(5.971)	(3.234)	(432)	(9.639)
Transfers from construction in progress (*)	--	--	31	1	(1.384)	2.304	(3.341)	(2.389)
Balance at 31 December 2017	**26.505**	**6.363**	**369**	**57**	**80.926**	**104.128**	**1.150**	**219.498**
Accumulated depreciation and impairment losses								
Balance at 1 January 2017	**--**	**(3.779)**	**(285)**	**(39)**	**(56.693)**	**(55.406)**	**--**	**(116.202)**
Change for the period	--	(56)	(38)	(7)	(9.763)	(11.045)	--	(20.909)
Disposals	--	--	--	1	5.602	2.686	--	8.289
(Allowance for) / reversal of impairment, net (**)	--	--	--	--	277	(5.466)	--	(5.189)
Transfers (*)	--	--	(29)	(1)	2.211	(2.747)	--	(566)
Balance at 31 December 2017	**--**	**(3.835)**	**(352)**	**(46)**	**(58.366)**	**(71.978)**	**--**	**(134.577)**
Net carrying amount at 1 January 2017	**26.505**	**2.544**	**54**	**18**	**26.844**	**42.438**	**341**	**98.744**
Net carrying amount at 31 December 2017	**26.505**	**2.528**	**17**	**11**	**22.560**	**32.150**	**1.150**	**84.921**

(*) As at 31 December 2017, the Company made an analyze of the classification of tangible and intangible assets and considered the changes as transfers between accounts.

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

NOTE 13 – INTANGIBLE ASSETS

The movement of intangible assets and related accumulated depreciation for the year ended 31 December 2018 and 2017 are as follows:

Cost	**Licences-rights and computer softwares**	**Total**
Balance at 1 January 2018	**88.777**	**88.777**
Additions	13.395	13.395
Disposals	(325)	(325)
Transfers (Note 12)	2.277	2.277
Balance at 31 December 2018	**104.124**	**104.124**
Accumulated amortisation and impairment losses		
Balance at 1 January 2018	**(64.593)**	**(64.593)**
Charge for the period	(12.803)	(12.803)
Disposals	271	271
Balance at 31 December 2018	**(77.125)**	**(77.125)**
Net book value as at 1 January 2018	**24.184**	**24.184**
Net book value as at 31 December 2018	**26.999**	**26.999**

Cost	**Licences-rights and computer softwares**	**Total**
Balance at 1 January 2017	**77.583**	**77.583**
Additions	11.658	11.658
Disposals	(35)	(35)
Transfers (Note 12) (*)	(429)	(429)
Balance at 31 December 2017	**88.777**	**88.777**
Accumulated amortisation and impairment losses		
Balance at 1 January 2017	**(55.296)**	**(55.296)**
Charge for the period	(12.715)	(12.715)
Disposals	35	35
Transfers (*)	3.383	3.383
Balance at 31 December 2017	**(64.593)**	**(64.593)**
Net book value as at 1 January 2017	**22.287**	**22.287**
Net book value as at 31 December 2017	**24.184**	**24.184**

(*) As at 31 December 2017, the Company made an analyze of the classification of tangible and intangible assets and considered the changes as transfers between accounts.

Amortisation expenses amounting to TL 8.687 (2017: TL 8.635) are included in marketing expenses and TL 4.116 (2017: TL 4.080) are included in general administrative expenses.

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

NOTE 14– PAYABLES RELATED TO EMPLOYEE BENEFITS AND PROVISINS FOR EMPLOYEE BENEFITS

The details of payables related to employee benefits as at 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Social security premiums payable	7.095	7.527
Accrued salaries	6.721	7.324
Income taxes payable	1.827	2.026
	15.643	**16.877**

The details of the provisions for employee benefits as at 31 December 2018 and 31 December 2017 are as follows:

Short-term provisions	31 December 2018	31 December 2017
Provision for sales personnel premium	2.966	5.107
Provision for unused vacation	2.977	2.572
Provision for other premium	1.386	2.550
	7.329	**10.229**

Long-term provisions	31 December 2018	31 December 2017
Provision for employee termination benefit	6.386	5.694
Provision for other premium	1.884	872
	8.270	**6.566**

Provisions for employment benefits

Under Turkish Labor Law, the Company is required to pay termination benefits to each employee who has completed certain years of service and whose employment is terminated without due cause, is called up for military service, dies or achieves the retirement age (58 for women and 60 for men).

Retirement pay liability is not subject to any kind of funding legally. The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. TAS 19 "Employee Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly the following actuarial assumptions were used in the calculation of the total liability:

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

NOTE 14– PAYABLES RELATED TO EMPLOYEE BENEFITS AND PROVISINS FOR EMPLOYEE BENEFITS (Continued)

Long-term provisions (continued)

Provisions for employment benefits (continued)

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Due to the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2018, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated with the assumption of 4,55 % real discount rate (31 December 2017: 4.23%) calculated by using 10,00% annual inflation rate and 15,00% interest rate. Estimated rates of voluntary leaves for sales personnel and administrative personnel for 0-15 years are taken into consideration as 18,63 % and 10,23%, respectively (31 December 2017: 20.00% and 12.53%), and 0% for employees working for 16 years and over. Ceiling for retirement pay is revised semi-annually. Probability has been determined as 100% for employees whose insurance register began before September 1999 (133 personnel) and the provision has been calculated accordingly.

Ceiling amount of TL 6.017,60 which is effective since 1 January 2019 is used in the calculation of Company's provision for retirement pay liability (2017: TL 5.001,76).

The movement of employment termination benefit provision for the year ended 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Opening balance, 1 January	5.694	4.533
Service cost	603	453
Interest cost	3.078	3.479
Actuarial (gain) / loss	792	986
Paid compansation during the year	(3.781)	(3.757)
	6.386	**5.694**

NOTE 15 – PROVISIONS

The details of the other short term provisions as at 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Provisions for ongoing litigation (*)	10.711	10.208
Provision for cancellation of rent agreements (**)	3.988	2.313
Other	653	137
	15.352	**12.658**

(*) Provision for ongoing litigation is comprised of lawsuits filed by consumers and former employees against the Company.

(**) Provision for cancellation of rent agreements is comprised of penalties to be paid to landlords related to store closures before the termination date of the rent agreements. For the year ended 31 December 2018, the Company paid the penalties with a discount as a result of the negotiations with the landlords. The provision for cancellation of rent agreements recognised as at 31 December 2017 were released and income amounting to TL 1.348 is recognised as other income from operating activities in the accompanying financial statements (Note 21).

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

NOTE 15 – PROVISIONS (Continued)

The movement of provisions for ongoing litigation and cancellation of rent agreements for the year ended 31 December 2018 and 2017 are as follows:

	1 January 2018	**1 January-31 December 2018 addition**	**1 January-31 December 2018 paid/reversal provisions**	**31 December 2018**
Provision for cancellation of rent agreements	2.313	3.988	(2.313)	3.988
Provisions for ongoing litigation	10.208	2.957	(2.454)	10.711
Reemployment	*5.287*	*1.264*	*(1.633)*	*4.918*
Consumer lawsuits	*1.491*	*568*	--	*2.059*
Provisions for rent lawsuit	*3.430*	*1.125*	*(821)*	*3.734*
	12.521	**6.945**	**4.767**	**14.699**

	1 January 2017	**1 January-31 December 2017 addition**	**1 January-31 December 2017 paid/reversal provisions**	**31 December 2017**
Provision for cancellation of rent agreements	12.071	753	(10.511)	2.313
Provisions for ongoing litigation	9.152	1.549	(493)	10.208
Reemployment	*3.868*	*1.419*	--	*5.287*
Consumer lawsuits	*1.984*	--	*(493)*	*1.491*
Provisions for rent lawsuit	*3.300*	*130*	--	*3.430*
	21.223	**2.302**	**(11.004)**	**12.521**

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

NOTE 16 – COMMITMENTS

Operating lease agreements

The Company leases various sales areas, offices and warehouses by operating lease agreements. Rental periods of the rent agreements vary between 1-10 years. The lease agreements require a payment of a certain monthly rent or a portion of the revenue of the store. According to the current code of obligations, as long as the lessee does not terminate the agreement, lease agreements can only be cancelled by the lessor due to irregularities.

The lease payments related to non-cancellable operating lease agreements are as follows:

	31 December 2018	**31 December 2017**
Less than 1 year	180.189	160.020
Between 1-5 years	410.869	466.664
More than 5 years	90.314	136.123
	681.372	**762.807**

Collateral, pledge, mortgage position

Collaterals, pledges and mortgages ("CPM") given by the Company as at 31 December 2018 and 2017 are as follows:

CPMs given by the Company	**31 December 2018 (thousands)**			
	TL equivalent	USD	Euro	TL
A. Total amount of CPM given on behalf of own legal personality	**248.521**	**7.632**	**4.700**	**180.038**
- Collaterals	234.139	7.632	4.700	165.656
- Pledges	--	--	--	--
- Mortgages	14.382	--	--	14.382
B. Total amount of CPM given in behalf of fully consolidated companies	--	--	--	--
C. Total amount of CPM given for continuation of its economic activities on behalf of third parties	--	--	--	--
D. Total amount of other CPM	--	--	--	--
Total CPM	**248.521**	**7.632**	**4.700**	**180.038**

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

NOTE 16 – COMMITMENTS (Continued)

Collateral, pledge, mortgage position (continued)

CPMs given by the Company	**31 December 2017 (thousands)**			
	TL equivalent	USD	Euro	TL
A. Total amount of CPM given on behalf of own legal personality	**109.388**	**7.652**	**4.894**	**58.427**
- Collaterals	94.496	7.652	4.894	43.535
- Pledges				
- Mortgages	14.892	--	--	14.892
B. Total amount of CPM given in behalf of fully consolidated companies	--	--	--	--
C. Total amount of CPM given for continuation of its economic activities on behalf of third parties	--	--	--	--
D. Total amount of other CPM	--	--	--	--
Total CPM	**109.388**	**7.652**	**4.894**	**58.427**

The ratio of other CPM given on behalf of third parties except for the CPM given on behalf of the Company's own legal personality to total equity is 0% as at 31 December 2018 (31 December 2017: 0%).

As at 31 December 2018 and 31 December 2017, the Company is contingently liable in respect of bank letter of guarantees obtained from banks mainly given to lessors in accordance with the lease agreements, enforcement office related to ongoing lawsuits and custom related to import transactions.

NOTE 17 – OTHER CURRENT ASSETS AND LIABILITIES

The details of the other current and non-current assets as at 31 December 2018 and 2017 are as follows:

Other current assets	**31 December 2018**	**31 December 2017**
Advances given	343	1.438
Personnel advances	115	274
Other current assets	669	102
	1.127	**1.814**

Other current liabilities	**31 December 2018**	**31 December 2017**
Value added tax ("VAT") payable	13.385	21.452
Other expense accruals (*)	2.943	7.605
Other liabilities and obligations	417	430
	16.745	**29.487**

(*) Other expense accruals comprised of irrecoverable gift checks which were given and used Teknosacell subscription who withdraw subscription subsequently and other various expense accruals.

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

NOTE 18 – SHAREHOLDERS' EQUITY

The Company's approved and the issued share capital consists of 11.000.000.000 shares of 1 Kr nominal value.

The details of the shareholder's equity structure as at 31 December 2018 and 2017 are as follows:

	31 December 2018		31 December 2017	
	Share	**%**	**Share**	**%**
Hacı Ömer Sabancı Holding A.Ş.	66.310	60.28228	66.310	60.28228
Dilek Sabancı	5.735	5.21327	5.735	5.21327
Sevil Sabancı	5.735	5.21327	5.735	5.21327
Other	32.220	29.29118	32.220	29.29118
Nominal share capital	**110.000**	**100**	**110.000**	**100**
Adjustment for capital	6.628		6.628	
Adjusted capital	**116.628**		**116.628**	

Restricted reserves

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

Legal reserves as mentioned above shall be classified as "Restricted Reserves Appropriated from Profit" according to Capital Markets Board financial reporting standards. The details of legal reserves are stated below as of 31 December 2018 and 2017:

	31 December 2018	31 December 2017
Legal reserves	8.704	8.704
	8.704	**8.704**

Profit Distribution

Public companies distribute profit in accordance with Profit Share Communique no 11-19.1 issued by CMB effective from 1 February 2014.

Companies distribute their profit due to profit distribution policies set by the general assembly in accordance with the related legislation verdicts with a general assembly minute. Within the extent of the communique mentioned above a minimal distribution rate is not designated. Companies distribute their profits in accordance with their main agreements of profit distribution policies.

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

NOTE 18 – SHAREHOLDERS' EQUITY (Continued)

Other comprehensive income that will not be reclassified to profit or loss

Gains on revaluation of property, plant and equipment

It consist from other comprehensive income of gains on revaluation of property, plant and equipment reserves that is not associated with profit and loss.

The movements of revaluation of property,plant and equipment for the year ended 31 December 2018 and 2017 are as follows:

	2018	**2017**
Opening balance	21.908	21.908
Fair value increase	5.301	--
Closing Balance	**27.209**	**21.908**

Gain / (losses) on remeasurement of defined benefit plans

As of 31 December 2018, actuarial loss amounting to TL 2.567 (31 December 2017: TL 3.201) is recognized as other comprehensive income.

NOTE 19 - REVENUE

The details of revenue and cost of revenue for the year ended 31 December 2018 and 2017 are as follows:

Revenue (net)	**1 January – 31 December 2018**	**1 January – 31 December 2017**
Retail sales	3.222.712	3.150.256
Dealer sales	254.308	240.303
	3.477.020	**3.390.559**

Cost of revenue	**1 January – 31 December 2018**	**1 January – 31 December 2017**
Cost of trading goods sold	(2.818.263)	(2.764.882)
Installation and warranty expenses	(12.971)	(13.951)
	(2.831.234)	**(2.778.833)**

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

NOTE 20 – MARKETING AND ADMINISTRATIVE EXPENSES

The details of marketing expenses for the year ended 31 December 2018 and 2017 are as follows:

Marketing expenses	**1 January – 31 December 2018**	**1 January – 31 December 2017**
Rent expenses	(184.694)	(156.156)
Personnel expenses	(145.664)	(149.413)
Advertising and promotion expenses	(56.840)	(49.778)
Transportation expenses	(20.637)	(21.475)
Depreciation and amortisation expenses	(17.716)	(19.688)
Energy, fuel and water expenses	(12.886)	(10.532)
Maintenance and cleaning expenses	(6.583)	(5.924)
Consultancy expenses	(5.769)	(6.593)
Communication expenses	(1.500)	(1.330)
Travel and accommodation expenses	(1.274)	(1.213)
Other expenses	(13.427)	(11.377)
	(466.990)	**(433.479)**

The details of administrative expenses for the year ended 31 December 2018 and 2017 are as follows:

General administrative expenses	**1 January – 31 December 2018**	**1 January – 31 December 2017**
Personnel expenses	(18.803)	(15.767)
Depreciation and amortisation expenses	(14.297)	(13.936)
IT expenses	(12.073)	(6.212)
Rent expenses	(5.006)	(1.486)
Consultancy expenses	(3.454)	(2.745)
Maintenance and cleaning expenses	(506)	(441)
Travel expenses	(418)	(435)
Energy, fuel, water expenses	(187)	(207)
Other expenses	(1.382)	(1.802)
	(56.126)	**(43.031)**

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

NOTE 21 – OTHER INCOME AND EXPENSES FROM MAIN OPERATIONS

The details of other income from operating activities for the year ended 31 December 2018 and 2017 are as follows::

Other income from main operating activities	**1 January – 31 December 2018**	**1 January – 31 December 2017**
Foreign exchange gains	36.227	8.069
Unearned interest income from trading activities	24.262	11.501
Impairment/cancellation of fixed asset (net)	2.284	--
Gains from insurances	2.216	--
Reversal of provisions for cancellation of rent agreements (*)	1.348	7.043
Gains from unused gift checks	1.220	449
Income from personnel	885	735
Other income	3.442	1.557
	71.884	**29.354**

(*)Reversal of provisions for cancellation of rent agreements is comprised of the remaining amount released as a result of a settlement or the penalty payments with a discount to the landlords.

The details of other expense from operating activities for the year ended 31 December 2018 and 2017 are as follows:

Other expense from operating activities	**1 January – 31 December 2018**	**1 January – 31 December 2017**
Deferred interest expense from trading activities	(97.801)	(53.643)
Foreign exchange losses	(34.239)	(8.234)
Litigation expenses	(9.233)	(4.993)
Early termination rent penalties	(3.023)	(753)
Impairment on property, plant and equipment (Note 12)	--	(5.189)
Other expenses and losses	(440)	(5.197)
	(144.736)	**(78.009)**

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

NOTE 22 – INCOME AND EXPENSES FROM INVESTING ACTIVITIES

The details of investment income/expense for the year ended 31 December 2018 and 2017 are as follows:

Income from investing activities

	1 January – 31 December 2018	**1 January – 31 December 2017**
Interest income on time deposits	187	336
Gain from sale of fixed assets	129	--
	316	**336**

Expense from investing activities

The details of other expenses from operating activities for the year ended 31 December 2018 and 2017 are as follows:

	1 January – 31 December 2018	**1 January – 31 December 2017**
Loss from sale of fixed assets	(5.544)	(794)
Revaluation loss from land and building on investment property (*)	(1.267)	--
	(6.811)	**(794)**

(*) Revaluation loss on land and buildings which are classified in investment property amounting to TL 1.234 and TL 33 are recognised in expenses from investing activities, respectively.

NOTE 23 – FINANCE COSTS

The details of finance costs for the year ended 31 December 2018 and 2017 are as follows:

	1 January – 31 December 2018	**1 January – 31 December 2017**
Credit card discount expenses	(25.567)	(29.085)
Interest and commission expenses	(42.826)	(17.053)
Credit card commission expenses	(28.400)	(12.550)
Guarantee letters commission expenses	(1.031)	(591)
Other finance costs	(264)	(999)
	(98.088)	**(60.278)**

NOTE 24 – INCOME TAXES (DEFERRED TAX ASSET AND LIABILITIES INCLUDED)

Corporate income tax:

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

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

In Turkey, temporary corporate tax is calculated and filed quarterly. Losses can be carried forward for a maximum period of five years to offset against future taxable income. However, losses cannot be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, inspect tax returns and the related accounting records and may revise assessments within five years.

As of 31 December 2018 and 2017, the Company has no income tax liabilities.

Exceptions from corporate income tax

As of December 31, 2018, 75% of the gains arising from the sale of the shares, founding notes, usufruct shares and pre-emptive rights of the properties (real estates) owned by the corporations for at least two full years in the assets of the shares held for the same period are exempt from corporate tax. However, with the amendment made to the Law No. 7061, this ratio has been reduced from 75% to 50% in terms of immovables and this ratio will be used as 50% for the immovables to be prepared as of 2018.

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

NOTE 24 – INCOME TAXES (DEFERRED TAX ASSET AND LIABILITIES INCLUDED) (Continued)

Corporate income tax (continued):

Tax income / (expenses) for the year ended 31 December 2018 and 2017 are as follows:

	1 January – 31 December 2018	1 January – 31 December 2017
Tax expense:		
Corporate tax expense of the current period	--	--
Deferred tx expenses:		
Deferred tax (expenses) / income from temporary differences	(10.123)	(4.809)
	(10.123)	**(4.809)**

Deferred tax assets and liabilities

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising between the financial statements as reported for TAS purposes and financial statements prepared in accordance with the tax legislation. These differences arise from the differences in accounting periods for the recognition of income and expenses in accordance with TAS and tax legislation. According to the Law numbered 7061 "Legislation on Amendment of Certain Tax Legislation and Other Certain Legislation" which was published on 5 December 2017 corporate tax rate for the taxation periods of 2018, 2019 and 2020 is amended to 22%, which would later be applied as 20% at the end of these periods. During these periods, Council of Ministers is entitled to decrease the corporate tax rate of 22% to 20%.

The details of the deferred tax assets and liabilities calculation by using effective tax rates for the year ended 31 December 2018 and 2017 is as follows:

	31 December 2018	31 December 2017
Prior year losses	28.660	36.652
Inventories	8.585	6.011
Kliksa transfer expenses	3.713	4.376
Expense accruals	2.853	3.693
Provision for cancellation of rent agreements	2.042	1.263
Litigations	1.988	1.604
Provision for reconciliation differences	1.342	1.342
Provision for employment termination benefits	1.150	1.139
Provision for unused vacations	655	566
Discount expenses	227	53
Withdrawal fees	195	830
Additional warranty costs	126	1.992
Derivative financial instruments	--	67
Income accruals	(854)	(1.267)
Restatement and depreciation / amortization differences of property, plant and equipment and other intangible assets	(5.127)	(4.928)
Discount income	(4.132)	(1.562)
Other	75	(16)
Total deferred tax assets / (liabilities)	**41.498**	**51.815**

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

NOTE 24 – INCOME TAXES (DEFERRED TAX ASSET AND LIABILITIES INCLUDED) (continued)

Deferred tax assets and liabilities (continued)

The movements of deferred tax asset as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Opening balance at 1 January	51.815	56.361
Current year (loss) / income	(10.123)	(4.809)
Other comprehensive income / (loss)	(194)	263
Closing balance at 31 December	**41.498**	**51.815**

At the balance sheet date, the Company has unused tax losses of TL 143.291 (2017 TL 180.853) available for offset against future profits. A deferred tax asset has been recognized in respect of TL 28.600 (2017: TL 36.652) of such losses.

Carry forward lax losses

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

	31 December 2018	31 December 2017
Expires at 2020	--	24.065
Expires at 2021	94.668	156.788
Expires at 2023	48.623	--
	143.291	**180.853**

The reconciliation of the current period tax (expenses) / income and operating profit as follows:

	31 December 2018	31 December 2017
Operatıng profıt/ (loss) before ıncome tax	(54.491)	24.377
Effective tax rate	%22	%20
Calculated tax	11.987	(4.875)
Reconciliation of tax provision:		
-Exemptions and discounts	(3.439)	(3.377)
-Reversal of previous year tax losses	(17.237)	--
-Utilization of previous year tax losses	--	4.472
-Effect of change in tax rate	(826)	(1.856)
-Other	(608)	827
Tax (expenses) / income on income statement	**(10.123)**	**(4.809)**

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

NOTE 25 – EARNINGS / (LOSS) PER SHARE

Weighted average number of shares and basic earnings per share for the year ended 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Weighted average number of ordinary shares outstanding during the period (in full)	11.000.000.000	11.000.000.000
Profit/(loss) for the year attributable to owners of the company	(64.609)	19.568
Basic (loss) / earnings per share from continuing operations -thousands of ordinary shares (thousands TL)	0,0059	0,0018
Basic (loss) / diluted earnings per share from continuing operations -thousands of ordinary shares (thousands TL)	0,0059	0,0018

NOTE 26 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists. The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realise in a current market exchange. The following methods and assumptions were used to estimate the fair value of the financial instruments for which it is practicable to estimate fair value:

Financial assets

Cash and cash equivalents are presented on cost basis and are assumed to reflect their fair values as they are liquid and classified as current assets.

Trade receivables are presented netted off related doubtful portion of the receivable and are assumed to reflect their fair value.

The fair values of certain financial assets carried at cost, including cash and amounts due from banks are considered to approximate their respective carrying values due to their short-term nature.

The carrying value of trade receivables along with the related allowances for uncollectibility is estimated to be their fair values.

Financial liabilities

Since trade payables are short-term, they are assumed to reflect their fair values.

Loans and other monetary liabilities are considered to approximate their carrying values due to their short-term nature.

Fair value estimations

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: quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: inputs for the asset or liability that are not based on observable market. (unobservable inputs).

NOTE 26 – NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy table as of 31 December 2018 is as follows:

Some of the Company's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined:

	Level 1	Level 2	Level 3
31 December 2017			
Derrivative instruments	--	(304)	--
	--	**(304)**	**--**

a) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total payables (including borrowings, trade payables, due to related parties and advances received, as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

b) Financial risk factors

Credit risk

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. Significant part of trade receivables comprise credit card receivables and the Company has is not exposed to credit risk concerning credit card receivables. The Company collects the instalments of its credit card sales according to the mutually agreed discount rates with the banks and financial institutions on the nest day when the sale made within the scope of the credit card sales contracts made under the various banks and financial institutions. Other trade receivables, cheques and notes are due from dealer sales of air-conditioning, cash register and white goods. The Company has set up an effective control system on the dealers that are followed by credit risk management and each debtors have their own credit limit. The Company consider the past experience and collateral from dealers (Note 7).

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

NOTE 26 – NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

b) Financial risk factors (continued)

b.1) Credit risk management

The credit risk as a financial risk factors as at 31 December 2018 is as follows:

Credit risk of financail instruments 31 December 2018	Receivables Trade Receivables Related Parties	Receivables Trade Receivables Third Parties	Deposits at bank and credit card receivables
Maximum credit risk as of balance sheet date (*)	1.764	64.011	24.259
-The part of maximum risk under guarantee with collateral etc. (**)	--	79.722	--
A.Net book value of financial assets that are neither past due nor impaired	1.764	50,072	24.259
B.Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	--	4.293	--
C.Net book value of impaired assets	--		--
-Past due (gross carrying amount)	--	9.646	--
'-Impairment (-)	--	(9.646)	--
'-The part of net value under guarantee with collateral etc.	--	--	--
-Not past due (gross carrying amount)	--	--	--
'-Impairment (-)	--	--	--
'- The part of net value under guarantee with collateral etc.	--	--	--
D.Off-balance sheet items with credit risk	--	--	--

(*) Guarantees received and other factors increasing loan reliability are not considered in determining this amount.
(**) Guarantees consist of letters of guarantee, notes receivable and cheques obtained from customers.

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

NOTE 26 – NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

b) Financial risk factors (continued)

b.1) Credit risk management (continued)

The credit risk as a financial risk factors as at 31 December 2017 is as follows:

	Receivables		
Credit risk of financail instruments	**Trade Receivables**		**Deposits at bank and credit card receivables**
31 December 2017	**Related Parties**	**Third Parties**	
Maximum credit risk as of balance sheet date (*)	2.610	53.518	66.621
-The part of maximum risk under guarantee with collateral etc. (**)	--	64.622	--
A.Net book value of financial assets that are neither past due nor impaired	2.610	61,419	66.621
B.Net book value of financial assets that are renegotiated, if not that will be accepted as past due or impaired	--	4.521	--
C.Net book value of impaired assets	--		--
-Past due (gross carrying amount)	--	12.422	--
'-Impairment (-)	--	(12.422)	--
'-The part of net value under guarantee with collateral etc.	--	--	--
-Not past due (gross carrying amount)	--	--	--
'-Impairment (-)	--	--	--
'- The part of net value under guarantee with collateral etc.	--	--	--
D.Off-balance sheet items with credit risk	--	--	--

(*)Guarantees received and other factors increasing loan reliability are not considered in determining this amount.
(**)Guarantees consist of letters of guarantee, notes receivable and cheques obtained from customers.

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

NOTE 26 – NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

b) Financial risk factors (continued)

Explanations on the credit quality of financial assets

As of 31 December 2018 and 2017, banks which contain cash and cash equivalents that are included in the neither overdue nor impaired financial assets have mostly high credit ratings, whereas the counterparties included in trade receivables in the same category are customers / related parties with whom the Company has been in relation for a long time and did not have any significant collection problems.

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

	31 December 2018	31 December 2017
Past due 1-30 days	627	3.531
Past due1-3 months	2.552	196
Past due 3-12 months	1.114	794
Past due 1-5 years	--	--
Past due more than 5 years	--	--
Total past due receviables	**4.293**	**4.521**

Total past due receviables		
The part of maximum risk under guarantee with collateral etc.	2.003	2.251

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

NOTE 26 – NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

b) Financial risk factors (continued)

b.2) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business the Company aims at maintaining flexibility in funding by keeping committed credit lines available. The Company management monitors the Company's liquidity reserve movements according to their projected cash flows.

The Company management holds adequate cash, credit commitment and credit card receivables that will meet the need for cash for recent future in order to manage its liquidity risk. In this context, the Company has credit commitment agreements (monetary and non-monetary) from banks amounting to TL 2.299.654 that the Company can utilize whenever needed as of 31 December 2018 (2017: TL 1.848.332).

The table below shows the Company's liquidity risk arising from financial liabilities:

31 December 2018	**Book value**	**Total contract based cash outflow (I+II+III)**	**Less than 3 months (I)**	**3 to 12 months (II)**	**1 to 5 years (III)**
Non-derivative financial liabilities					
Trade payables	777.142	777.142	777.142	--	--
Related parties	*4.738*	*4.738*	*4.738*	--	--
Third parties	*772.404*	*772.404*	*772.404*	--	--
Other payables	1.990	1.990	1.990	--	--
Third parties	*1.990*	*1.990*	*1.990*	--	--
Total liabilities	**779.132**	**779.132**	**779.132**	--	--

31 December 2017	**Book value**	**Total contract based cash outflow (I+II+III)**	**Less than 3 months (I)**	**3 to 12 months (II)**	**1 to 5 years (III)**
Non-derivative financial liabilities					
Trade payables	674.944	677.921	677.921	--	--
Related parties	*3.296*	*3.296*	*3.296*	--	--
Third parties	*671.648*	*674.625*	*674.625*	--	--
Other payables	1.456	1.456	1.456	--	--
Third parties	*1.456*	*1.456*	*1.456*	--	--
Total liabilities	**676.400**	**679.377**	**679.377**	--	--
Derivative financial liabilities					
Derivative financial assets held fo cash flow hedges					
-Cash outflow	304	(32.468)	(31.424)	(1.044)	--
-Cash inflow	--	31.571	30.574	997	--
Total liabilities	**304**	**(897)**	**(850)**	**(47)**	--

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

NOTE 26 – NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

b) Financial risk factors (continued)

Foreign currency risk

As the Company primarily purchases from domestic vendors in TL, the Company is exposed to limited foreign exchange risk.

The risk is monitored by the Board of Directors in regular meetings. The idle cash is invested in foreign currency in order to minimise the foreign exchange risk resulted from balance sheet items. The Company also manages the foreign currency risk by limited use of forward contracts, which is one of derivative instruments, if necessary.

Foreign Currency Position	**31 December 2018**			
	TL equivalent	**USD**	**EUR**	**Other**
1. Trade receivable	1.528	152	120	109
2a.Monetary financial assets (including cash on hand and bank accounts)	53	2	7	--
2b.Non monetary financial assets	--	--	--	--
3. Other	5.086	536	376	--
4. CURRENT ASSETS (1+2+3)	**6.667**	**690**	**503**	**109**
5. Trade receivables	--	--	--	--
6a. Monetary financial assets	--	--	--	--
6b. Non monetary financial assets	--	--	--	--
7. Other	--	--	--	--
8. NON CURRENT ASSETS (5+6+7)	**--**	**--**	**--**	**--**
9. TOTAL ASSETS (4+8)	**6.667**	**690**	**503**	**109**
10. Trade payables	(7.558)	(1.541)	91	--
11. Financial liabilities	--	--	--	--
12a. Other monetary liabilities	--	--	--	--
12b. Non monetary other liabilities	(1.974)	(389)	12	--
13. CURRENT LIABILITIES (10+11+12)	**(9.532)**	**(1.930)**	**103**	**-**
14. Trade payables	--	--	--	--
15. Financial liabilities	--	--	--	--
16a. Monetary other liabilities	--	--	--	--
16b. Non monetary other liabilities	--	--	--	--
17. NON CURRENT LIABILITIES (14+15+16)	--	--	--	--
18. TOTAL LIABILITIES (13+17)	**(9.532)**	**(1.930)**	**103**	**-**
19. Net position of financial statement (9+18)	**(2.865)**	**(1.240)**	**606**	**109**
Off-balance sheet derivative assets	--	--	--	--
Off-balance sheet derivative liabilities	--	--	--	--
20. Net position of foreign currency derrivatives	**--**	**--**	**--**	**--**
21. Net position of foreign currency asset / (liability) (19+20)	**(2.865)**	**(1.240)**	**606**	**109**
22. Net position of monetary foreign currency asset / (liability) (19)-(3+7)	**(5,464)**	**(1,387)**	**218**	**109**
23. Total fair value of foreign currency hedge	--	--	--	--
24. The amount for the hedged portion foreign currency assets	--	--	--	--
25. The amount for the hedged portion of foreign currency liabilities	--	--	--	--

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

NOTE 26 – NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

b) Financial risk factors (continued)

Foreign currency risk (continued)

Foreign Currency Position	**31 December 2017**			
	TL equivalent	**USD**	**EUR**	**Other**
1. Trade receivable	950	251	--	109
2a.Monetary financial assets (including cash on hand and bank accounts)	2.016	163	254	--
2b.Non monetary financial assets	241	45	13	--
3. Other	--	--	--	--
4. CURRENT ASSETS (1+2+3)	**3.207**	**459**	**267**	**109**
5. Trade receivables	--	--	--	--
6a. Monetary financial assets	--	--	--	--
6b. Non monetary financial assets	234	62	--	--
7. Other	--	--	--	--
8. NON CURRENT ASSETS (5+6+7)	**234**	**62**	**--**	**--**
9. TOTAL ASSETS (4+8)	**3.441**	**521**	**267**	**109**
10. Trade payables	(7.253)	(987)	(640)	--
11. Financial liabilities	--	--	--	--
12a. Other monetary liabilities	(3.401)	(349)	(378)	--
12b. Non monetary other liabilities	--	--	--	--
13. CURRENT LIABILITIES (10+11+12)	**(10.654)**	**(1.336)**	**(1.018)**	**--**
14. Trade payables	--	--	--	--
15. Financial liabilities	--	--	--	--
16a. Monetary other liabilities	--	--	--	--
16b. Non monetary other liabilities	--	--	--	--
17. NON CURRENT LIABILITIES (14+15+16)	--	--	--	--
18. TOTAL LIABILITIES (13+17)	**(10.654)**	**(1.336)**	**(1.018)**	**--**
19. Net position of financial statement (9+18)	**(7.213)**	**(815)**	**(751)**	**109**
Off-balance sheet derivative assets	31.571	8.370	--	--
Off-balance sheet derivative liabilities	--	--	--	--
20. Net position of foreign currency derrivatives	**31.571**	**8.370**	**--**	**--**
21. Net position of foreign currency asset / (liability) (19+20)	**24.358**	**7.555**	**(751)**	**109**
22. Net position of monetary foreign currency asset / (liability) (19)-(3+7)	**(7.213)**	**(815)**	**(751)**	**109**
23. Total fair value of foreign currency hedge	--	--	--	--
24. The amount for the hedged portion foreign currency assets	--	--	--	--
25. The amount for the hedged portion of foreign currency liabilities	31.571	8.370	--	--

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

NOTE 26 – NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

b) Financial risk factors (continued)

Foreign currency risk (continued)

Foreign currency sensitivity

The Company is exposed to foreign exchange risk arising primarily from USD and EUR. The following table demonstrates the sensitivity of the Company to a possible change of 10% in US dollar and EUR rates. 10% is the rate is a reasonable rate as it is limited with 10% share capital commitment. Sensitivity analysis based on the foreign exchange risk at the reporting date, is identified with the changes at the beginning of the fiscal year and kept constant during the fiscal period. Negative value implies the effect of 10% increase in USD and in EUR foreign currency rates against TL on the decrease in the net profit.

Foreign Currency Sensitivity Table	**31 December 2018**	
	Profit / Loss	
	Appreciation of foreign currencies	Depreciation of foreign currencies
In case 10% appreciation of USD against TL		
1 - USD Dollars net assets/liabilities	(652)	652
2- Amount hedged for USD risk (-)	--	--
3- USD net effect (1 +2)	**(652)**	**(652)**
In case 10% appreciation of EUR against TL		
4 - EUR net assets/liabilities	365	(365)
5 - Amount hedged for EUR risk (-)	--	--
6- EUR net effect (4+5)	**365**	**(365)**
In case 10% appreciation of other currency against TL		
7- Net assets/liabilities in other foreign currency	1	(1)
8- Amount hedged for other currency risk (-)	--	--
9- Other currency assets net effect (7+8)	--	--
TOTAL (3 + 6 +9)	**(286)**	**286**

Foreign Currency Sensitivity Table	**31 December 2017**	
	Profit / Loss	
	Appreciation of foreign currencies	Depreciation of foreign currencies
In case 10% appreciation of USD against TL		
1 - USD Dollars net assets/liabilities	(307)	307
2- Amount hedged for USD risk (-)	3.157	(3.157)
3- USD net effect (1 +2)	**2.850**	**(2.850)**
In case 10% appreciation of EUR against TL		
4 - EUR net assets/liabilities	(414)	414
5 - Amount hedged for EUR risk (-)	--	--
6- EUR net effect (4+5)	**(414)**	**414**
In case 10% appreciation of other currency against TL		
7- Net assets/liabilities in other foreign currency	1	(1)
8- Amount hedged for other currency risk (-)	--	--
9- Other currency assets net effect (7+8)	1	(1)
TOTAL (3 + 6 +9)	**2.437**	**(2.437)**

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

NOTE 27 - FINANCIAL INSTRUMENTS (FAIR VALUE DISCLOSURES AND EXPLANATIONS ON HEDGE ACCOUNTING)

As at 31 December, fair value and carrying amounts of assets and liabilities are shown in the table below:

31 December 2018	**Financial assets at amortized cost**	**Derivative financial instruments**	**Financial liabilities at amortised cost**	**Carrying value**	***Note***
Financial assets					
Cash and cash equivalents	26.987	--	--	26.987	*5*
Trade receivables (including due from related parties)	65.775	--	--	65.775	*7*
Other receivables	581	--	--	581	*8*
Financial liabilities					
Financial liabilities	--	--	8.500	8.500	*6*
Trade payables (including due to related parties)	--	--	777.142	777.142	*7*
Other payables	--	--	1.990	1.990	*8*

31 December 2017	**Financial assets at amortized cost**	**Derivative financial instruments**	**Financial liabilities at amortised cost**	**Carrying value**	***Note***
Financial assets					
Cash and cash equivalents	72.703	--	--	72.703	*5*
Trade receivables (including due from related parties)	56.128	--	--	56.128	*7*
Other receivables	501	--	--	501	*8*
Financial liabilities					
Trade payables (including due to related parties)	--	--	674.944	674.944	*7*
Other payables	--	--	1.456	1.456	*8*
Derivative liabilities	--	304	--	304	

The Company management assumes that the carrying values of the financial assets and liabilities are close to their fair value because of their short-term nature.

NOTE 28 – EVENTS AFTER THE REPORTING PERIOD

The Company made a material disclosure on Public Disclosure Platform on 18 February 2019 in accordance with the CMB's principal decision 10 April 2014 dated and numbered 11/352 as detailed below:

''The Company issued its financial statements as at 31 December 2018 which are prepared in accordance with the CMB regulations. The Company's equity in these financial statements amounting to full TL (-) 103.078.000 and the brand value which is the off-balance sheet asset of the Company amounting to full TL 315.159.000 are considered in accordance with the CMB's principal decision numbered 2014/11. There is no change in the negative equity status of the Company in these financial statements which are prepared in accordance with above mentioned the CMB regulations. As a result, statement of financial position is prepared in accordance with the related article of TCC 376 based on the CMB's principal decision numbered 2014/11.

The brand value is included in the statement of financial position prepared in accordance with the related article of TCC 376. Equity of this statement in the financial position prepared in accordance with the related article of TCC 376 is amounting to full TL (+) 253.915.266 This indicates that the Company maintains its share capital amounting to TL 110.000.000 in full.''

The Company has closed 3 stores dates between balance sheet date and 18 February 2019, As a result of these store closures, the Company's retail space decreased by 386 square meters.