TEKNOSA

Annual Report 2018

OMNICHANNEL, MULTIDIMENSIONAL CUSTOMER EXPERIENCE

Agenda of the 2018 Ordinary General Assembly

TEKNOSA İÇ VE DIŞ TİCARET ANONİM ŞİRKETİ
THE AGENDA OF THE ORDINARY GENERAL ASSEMBLY MEETING FOR 2018 TO BE HELD ON MARCH 27, 2019

1. Opening and formation of the Assembly Council.
2. Reading and discussion of the Board of Directors' 2018 Annual Report.
3. Reading of the Auditor's Reports for 2018.
4. Reading, discussion and approval of the 2018 Financial Statements.
5. Presenting the members elected to the Board's vacant positions in 2018 to the General Assembly for approval
6. Releasing the Board of Directors from liability for activities in 2018.
7. Determination of the use of 2018 profits/losses
8. Selection of the Auditor
9. Informing the General Assembly on the Company's donations and grants in 2018.
10. Determination of an upper limit for donations in 2019.
11. Granting permission to the Chairman and Members of the Board of Directors for activities to be performed under Articles 395 and 396 of the Turkish Commercial Code

Contents

We continuously improve ourselves and make investments to provide high-level shopping experience for our customers **“anytime, anywhere,”** with our philosophy **“Technology for Everyone.”** We undertake exemplary activities for customer experience in the omnichannel area we lead and are therefore delighted to be named again as the Lovemark*of the Technology Market category for consumers in 2018.

** MediaCat “Turkey’s Lovemarks” research*

As the leading next generation retail company in Turkey, Teknosa offers its customers technology products for the "most reasonable prices" and with the "best service quality" possible.

Since its establishment, Teknosa differentiates itself with its large-scale presence, quality of service and innovative approach.

With 205 stores in 68 provinces across Turkey, along with teknosa.com and mobile platforms, Teknosa facilitates access to technology. The Company's shares have been traded on the Istanbul Stock Exchange (BİST) since 2012.

Driven by its philosophy "Technology for Everyone," Teknosa makes customers' access to technology easier, anytime and anywhere.

Teknosa has a presence in 68 provinces of Turkey.

108 thousand m²
Store Area

205
Stores

2,292
Employees

Teknosa offers seamless service with 205 stores in 68 provinces, teknosa.com and mobile apps on omnichannel platforms.

Teknosa differentiates itself in the sector with its extensive presence, service quality, reliability and product diversity, as well as its dynamic, innovative and progressive structure.

Teknosa İç ve Dış Ticaret A.Ş. was established in 2000 under the umbrella of Sabancı Holding. Driven by the philosophy of “Technology for Everyone” the Company aims to stand by customers anytime, anywhere, make their access to technology easier and offer a pleasurable shopping experience.

Teknosa advances in its sector via utilizing the strength of its widespread penetration, superior service quality, reliability and product diversity, as well as its dynamic, innovative and progressive company structure. The Company has adopted as its principle the shaping of the future hand in hand with its employees, stakeholders and customers, pursuing policies of quality and adding value.

The operations of Teknosa are evaluated under two groups: retail/e-commerce and its dealer network. Our stores and online channels provide the retailing of consumer electronics, imaging, information technology, telecom products and household appliances. Through the subsidiary group İklimsa, Teknosa also has operations in the air conditioning sector.

As part of its omnichannel strategy, Teknosa delivers a range of innovative services and applications to provide customers with seamless services across all its channels and to strengthen its identity as a service provider beyond its products. Always aiming to add value to its customers’ lives, Teknosa continues to further deepen its innovative initiatives.

As a first in the sector, in 2015, Teknosa launched the only mobile communication service Teknosacell, which continues to grow by offering generous Internet packages, budget-friendly post- and pre-paid lines and exclusive benefits for technology products.

Preo, the special brand of Teknosa, has become one of the most comprehensive “private label” initiatives in the sector. The Company continues diversifying the product range of the Preo family every day.

Teknosa provides customers with guidance on technology shopping and constantly improves its pre-sales and sales added-value services in line with new technologies and customer needs. Additional product warranties are granted to customers through TeknoGaranti. Under the umbrella of Dr. Teknolog, comprehensive technological services, from installation and technical support to protection are provided at stores, houses, offices and via hotlines.

Having launched the “Satisfaction Returns” as a first in Turkey, in 2018, Teknosa now offers customers an opportunity to return their products for 30 days following the purchase.

Teknosa responds to the technology and service needs of enterprises of any size through its corporate sales channel.

It embraces digital transformation from its supply chain to delivery to end consumers and after-sales and has adopted a data-driven management culture. Therefore, the Company prioritizes CRM and data analytics efforts.

Teknosa responds to the technology and service needs of enterprises of any size through its corporate sales channel.

Having concluded 2018 with a turnover of TL 3.5 billion, Teknosa invested around TL 40 million in online channels particularly and infrastructure and customer outreach channels.

Developments in 2018 and Targets for 2019

The Consumer Electronics Market comprises five sales channels: Chain Stores, Traditional Channel, Computer Shops, Telecom Dealers and Technology Superstores (TSS). As per 2018 results, Technology Superstores (TSS) – a category in which Teknosa also operates – have a 19% share of the consumer electronics market. Teknosa's share in the TSS sales channel amounted to 31% in 2018.

According to the Technology Retail Panel Study conducted by independent research institute GFK, the total market size of the consumer electronics market – including Large and Small Domestic Appliances – was TL 59.5 billion in 2018. This represented a 9.4% increase compared to 2017.

A closer look at the details of different product categories in the Consumer Electronics market reveals that the Small Domestic Appliances segment with 17.2%, is the fastest growing one. This segment was followed by Telecom with 10.7%, Large Domestic Appliances (including air-conditioners) with 9.4% and Consumer Electronics with 7.5% (including imaging systems). On the other hand, Information Technologies (including office equipment and consumables) shrank by 1.3% on a YoY basis.

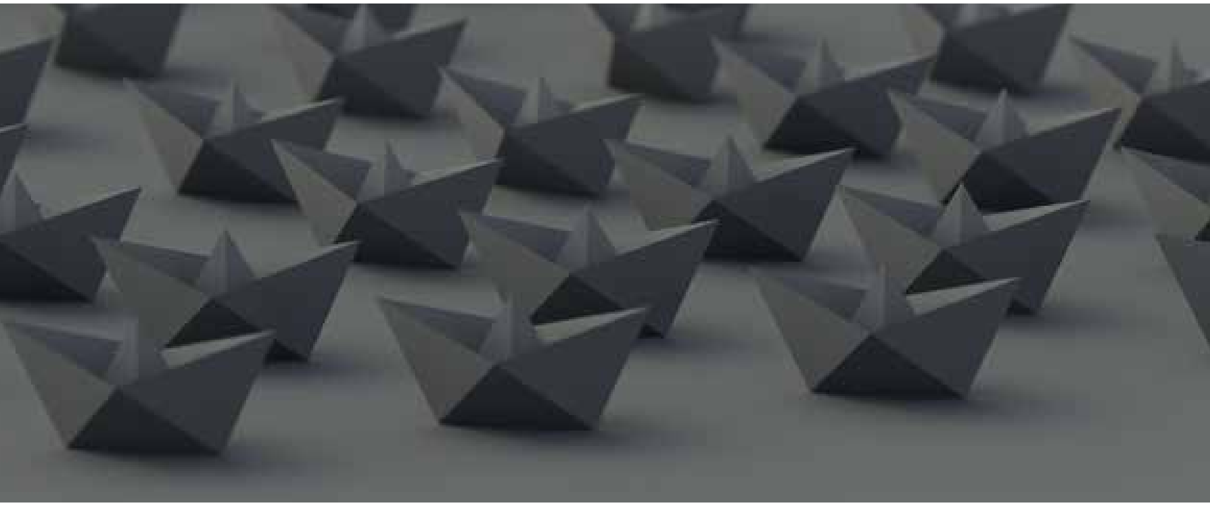
Teknosa closed 2018 with a turnover of TL 3.5 billion, EBITDA of TL 158 million and net loss of TL 65 million. Furthermore, the Company invested around TL 40 million in online channels particularly and infrastructure and outreach channels to customers. Teknosa.com sales reached TL 204 million and the share of online sales in the turnover of total merchandise raised to 6%.

The maturities for credit card purchases of electronics and of computers and tablets were limited to three months and six months, respectively, pursuant to the "Regulation Amending the Regulation on Bank Cards and Credit Cards" published in the Official Gazette on August 15, 2018. The maturities of White Goods, Small Home Appliances and Telecom which do not fall within these categories were not amended and the 12-month installment option for White Goods and Small Home Appliances remained intact. For Telecom, there is no installment option for purchases with credit card.

Pursuant to the "Regulation Amending the Regulation on Banks' Loan Transactions" published in the Official Gazette on August 15, 2018, maturities for loans to purchase mobile phones, tablets and computers were limited to six months. The maturity for electronics and other goods was shortened to 36 months down from 48.

The expectations for 2019 - a year with flexible plans in the light of the global business outlook and Turkey's dynamics - are diverse. A high single-digit or low double-digit growth is anticipated for like-for-like sales. The turnover of 2019 is expected to exceed the turnover of 2018, while the target for the EBITDA margin is envisaged to stand at 3-4%, excluding the impact of IFRS16 enacted in 2019. An investment of more than TL 30 million is planned in 2019, as part of the customer-centered omnichannel strategy.


SanDisk

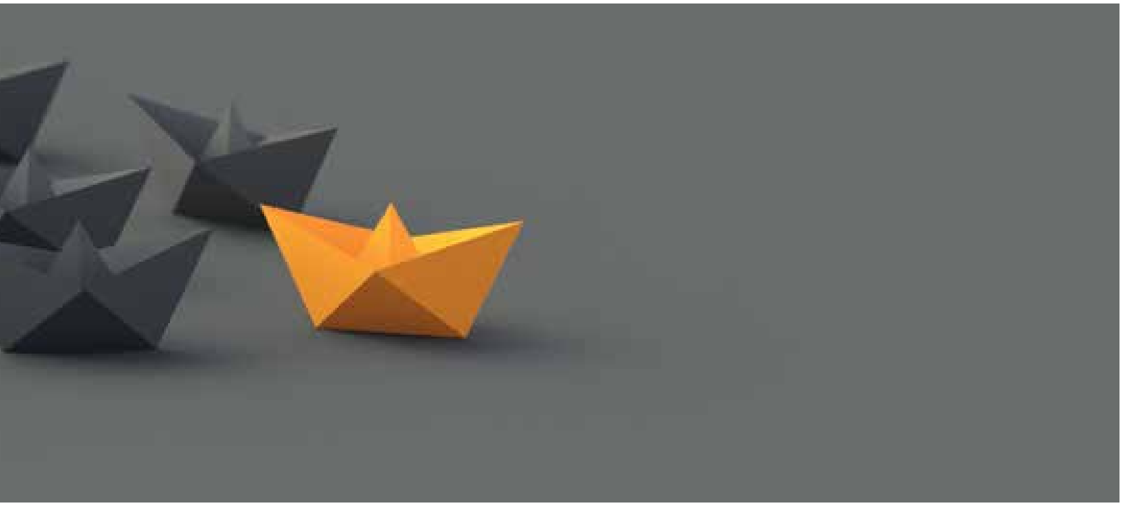


Vision

To act as the leading electronics retailer in the region through “innovative” and “distinctive” products and services.

Mission

To always generate an exceptional customer experience with its widespread sales channels, a diverse portfolio of high-quality technological products and superior services.



Values

Teknosa is a young and dynamic company that prioritizes customer satisfaction, is strictly dedicated to ethical principles and social responsibilities and initiates improvements.

Quality Policy

Offering products and services, Teknosa is a company that prioritizes customer satisfaction, continuously improves its relationships with its suppliers and places importance on the development of its employees, ensuring the sustainability and efficiency of its lean and fast-moving organization by practicing modern management techniques and consistently conducting assessments for further improvement with an innovative approach.

Complaint Management Policy

Teknosa handles all complaints and requests received through customer interaction channels in accordance with laws and Company policies and in a confidential, fair and objective manner. The Company continuously improves its complaint management system thereby increasing customer satisfaction.

Milestones

Teknosa launched "Satisfaction Returns" as another first in Turkey in 2018.

2007 I *The Gebze Logistics Center commenced operations.*

2009 I *"Extra" stores were opened.*

2000
Teknosa began operations with five retail stores.

2003
The www.teknosa.com website was launched.

2005
Teknosa Academy was established.

2006
The Scientific Retailing Program was initiated for operational efficiency and infrastructure projects.

Dealership operations in air conditioning sector were organized under the İklimsa brand.

E-learning program was started.

2007
The Gebze Logistics Center commenced operations.

Five stores in Turkey belonging to the German consumer electronics retailer Electronic Partner were acquired.

Two music stores of Uzelli in Turkey were acquired.

Under the TeknoAsist program, after-sales and product exchange/return services were made available to customers for the first time in Turkey.

2009
"Extra" stores were opened.

2010
The organization was restructured.

A "rapid growth" strategy was replaced by "sustainable and profitable growth."

2011
The Turkish operations of the American electronics retailer Best Buy were acquired.

2012
The Company's shares began trading on the Istanbul Stock Exchange (BIST) on May 17, 2012.

2013
Teknosa's mobile applications for Android and iOS devices were launched.

Teknosa started technology product leasing services for SMEs in 2018.

2016 I *Teknosa's Preo-branded product range was expanded.*

2018 I *Technology products leasing services for SMEs were initiated.*

2014
Click & Collect was initiated.

Teknosa started to offer alternative financing options to customers with TeknoFinans.

2015
With Teknosacell, Teknosa became the first and only technology retail company in Turkey to provide mobile communication and line services.

Teknosa Preo-branded special products were introduced to the market.

2016
The Disney Collection shop-in-shop concept was launched.

Installment sales options for mobile devices were made available with Teknosacell.

Teknosa's Preo-branded product range was expanded. Sales of new accessories, virtual reality glasses and gaming products began.

2017
The corporate social responsibility project, Technology for Women, celebrated its 10th anniversary.

2018
The teknosa.com infrastructure and interface were renewed.

A new CRM platform was created.

Turkey's first "Satisfaction Return" practice was launched.

Technology products leasing services for SMEs were initiated.

Main Competitive Advantages

Today, Teknosa shapes the sector with its efforts in designing distinctive business models and special services alongside a focus on sector transformation and the omnichannel model.

Having introduced to consumers the concept of technology markets in Turkey, Teknosa is by far the most widespread technology retail chain of Turkey, owing to a broad network of stores, teknosa.com and mobile platforms. Thanks to significant infrastructure investments, the Company became a reference point in the retail sector and in digital channels, developing a sector model that has drawn global attention. Today, Teknosa shapes the sector with its efforts in designing distinctive business models and special services alongside a focus on sector transformation and the omnichannel model.

The "Playmaker" of the Sector

Boasting a firm presence in technology retailing - Teknosa's core field of activity - the Company invests continuously in its brand and employees and develops talented human resources, while pioneering innovative services to guarantee customer satisfaction. It continues to steer the sector in Turkey, taking courageous steps and creating the product mix with a channel structure that addresses consumer needs in the most ideal way.

The Pioneer of the Omnichannel in Technology Retailing

Teknosa provides customers with an integrated online and offline shopping experience, focusing on seamless service across all channels. The Company is amplifying its investments in the omnichannel model that it continues to pioneer in Turkey.

Unlimited Customer Satisfaction

Additionally with the Company's product and service diversity, Teknosa adopts a customer-oriented management style and considers customers its most valuable asset. To that end, the Company ensures customer satisfaction via several initiatives such as fast and qualified service across all channels, a customer expectations management program and service-oriented training programs for employees.

Data-Driven Management Approach

Parallel to the "Sabancı of the New Generation" vision, Teknosa puts advanced data analytics at the core of its business. For customers to promptly access the right product at the right time and with the right price, the Company manages its activities based on a data-driven smart system that monitors today and predicts the future.

Customer-Centered Scientific Retailing

Teknosa is also distinguished from other companies by its sales and after-sales service quality. Placing considerable importance on Customer Experience Management, the Company strives to offer its customers an integrated and seamless experience at all customer contact points, including stores, websites and the Call Center.

Teknosa Call Center and www.teknosa.com provide comprehensive after-sales support in order to meet customers' needs and expectations. Additionally, customer requests can instantly be met at in-store customer service points. This Company practice is also a first in the sector.

Value-Added Services

Wide-ranging technological services from installation and technical support to safety which customers can benefit at stores, over the phone, at home or at work are delivered under the roof of Dr. Teknolog. Dr. Teknolog assures customers that Teknosa will support them not only during sales, but also thereafter.

As part of Dr. Teknolog, service packages are provided in different categories such as Additional "Warranty," "Safety," "In-Store Service" and "On-site Setup" services. Customers can get term and hassle-free product use with Additional Warranty. The Technology Support Package enables them to remotely access Dr. Teknolog through the Call Center and obtain answers to all their technology-related questions. Meanwhile, instant in-store support services, such as guidance for usage and installation, are available in selected stores for those customers who are new to the latest technology.

Parallel to the "Sabancı of the New Generation" vision, Teknosa puts advanced data analytics at the core of its business.

Offering solutions that bring technology to life, Teknosa guides customers before, during and after sales in technology shopping and continues to develop new and value-added services.

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Teknosa Academy

Teknosa places great importance on training its employees to make them highly qualified experts in order to maximize customer and employee satisfaction. Founded in 2005, Teknosa Academy was the first academy in technology retailing. Providing employees with training and development opportunities through various programs, Teknosa Academy, which graduated 2,005 people, guides employees on their career paths. Teknosa carries out programs to provide all employees with equal training opportunities at the Academy and to ensure continuous education in line with the rapid advances in technology.

Candidate Training Program

The Candidate Training Program is a mixed training program provided to new store employees and supported by e-learning courses, videos and reading materials, which are accessible on Teknosa Academy platforms, as well as on-the-job training, which is delivered by store managers.

Teknosa Academy operates on a blended learning model. The Academy continues to enrich its physical and face-to-face learning modules and personal development activities, offering reasonable prices and improved efficiency independent of time and space. In an environment of constantly evolving user habits and diversified channels to access information, "teknosaakademi.com," with its technology infrastructure and enhanced user experience features, provides employees with learning and personal development opportunities.

Teknosa Academy bases its learning and personal development process on four main methods. "teknosaakademi.com" is the main platform which encapsulates all models: Teknosa Learning Management System (LMS), through which e-learning, e-testing and survey services are provided; TeknoTube, the video-based learning platform; TeknoBlog, aiming at providing employees with interactive communication opportunities and fostering synergies; and E-orientation, a reference guide for newly-hired employees.

Mentor-Mentee Program

The purpose of this program is to support employee development by enabling them to benefit from the knowledge and experience of managers; to improve their leadership skills; to facilitate the implementation of the corporate strategy, to instill positive corporate values, to support existing and/or new practices across the organization; and to strengthen communication through different departments.

Store Manager Development Program

Store manager candidates, who succeed at the assessment center at Teknosa stores, are accepted into the Store Manager Development Program.

Corporate Coaching Program

The Corporate Coaching Program aims to create a working atmosphere conducive to achieving overall success by closely monitoring employees' target-performance plans.

Personal Development Support

To support their personal development, employees are provided with the opportunity to take foreign language courses and enroll in graduate programs.

Strong Logistics Infrastructure

Additionally, Teknosa continues its investments in order to establish a powerful logistics infrastructure and maximize the efficient use of information technologies. As of 2018, the Company has a sales area of over 108 thousand m^2 and a depot consisting of 30 thousand m^2 of closed space. Teknosa has the largest logistics center in its sector, located in Gebze/Istanbul, where all logistics operations are carried out. The Company's logistics center has an online connection to all stores and all operations are carried out by utilizing information systems. Similarly, at the stores, retail operations are supported by technology while all processes, including stock level controlling, product placement and label changing, are carried out via scientific retailing tools.

Teknosa invested in infrastructure and customer outreach channels also continued to develop new store concepts and services in 2018.

Despite challenging market conditions in 2018, Teknosa kept on taking right actions and creating value without interrupting its constant investments.

The Company maintained its efforts in analytics for product availability, dynamic pricing, stock optimization and supply chain optimization, hence focusing on increased sales efficiency, as part of operational excellence.

As for digitalization, it invested in infrastructure and customer outreach channels, online channels in particular, and continued to introduce concepts and services through which customers will experience products more comfortably in the stores.

E-Commerce

In line with the growth trend of e-commerce, the omnichannel strategy, which turns stores into an experience space integrated with digital platforms, is the key to growth. Teknosa maintained its focus on the omnichannel operations again in 2018, continuing to take actions for the future of e-commerce and mobile commerce. Accordingly, the transition to Hybris took place, as an e-commerce platform to offer the best customer experience. Teknosa.com is now a platform that is much faster with the new infrastructure, in full integration with the existing ERP systems, offers strong content management, is able to define dynamic and flexible campaigns and improves Click & Collect (purchasing online and picking up from the store), i.e. offering an end-to-end service.

In 2018, the share of teknosa.com reached 6% in the turnover of merchandising activities and the share of mobile platforms in the turnover of total e-commerce sales rose to 25%. The increase in smart phone and product penetration, meanwhile, is positively affecting the use of mobile applications.

CRM and Data Analytics

Teknosa continued to strengthen its omnichannel infrastructure and services and deployed a new CRM program in 2018 to guarantee a better shopping experience for customers. The infrastructure was moved to Microsoft Dynamics, customer data retained by online & offline channels and the call centers - another contact point for customers - were individualized, while efforts to enhance data were initiated. Campaign management by customer segmentation was strengthened thanks to the new CRM platform.

Big data management, the new currency of the business world, now lies at the heart of all the processes of Teknosa. Therefore, the Data Analytics department was established and a roadmap defined in 2018. Efforts in this field are intended to ensure more effective management of numerous processes, including pricing and inventory management, customer-store segmentation and warehouse supply, as well as transfer optimization and assortment.

Teknosacell

Teknosa continues to operate as the sole address in technology and provides mobile communication services with Teknosacell, a first in the sector. It meets customers' communication and technology needs at a single point through Teknosacell, offering generous Internet packages and exclusive benefits. The Company also launched pre-paid line sales as of April 2018 and diversified its product portfolio in mobile communication. Teknosacell also gained momentum with Buy Back services and reached 220 thousand subscribers in 2018. The brand continues to operate in this field, providing customers with different services and advantages.

Teknosa provides mobile communication services with Teknosacell, as a first in the sector.

Teknosa's Preo brand for smart products is the most comprehensive private label of the sector with over 300 products.

Teknofinans

Under the TeknoFinans brand, Teknosa provides its customers with consumer financing alternatives, ING Teknokredi and Akbank AKON. Through these, the Company ensured that over 500 thousand customers made use of this solution opportunity between the launch of the brand and the end of 2018. Thanks to this service, consumers can pay securely at the stores by accessing credits with up to 36 monthly installments with attractive interest rates and no additional charges or commissions.

Teknosa Preo

In 2018, Teknosa continued to improve its Preo brand, which is the Company's entry in the smart products market. Preo, comprising over 300 products, is the sector's most comprehensive private label brand. Under the Preo brand, Teknosa continues to provide customers with new wireless headphones, powerbanks action cameras, smart accessories and the latest technology at compelling prices. In 2018, the Preo family ventured into a new category with the Preo My Care series, adding personal care products to its portfolio. The Company will continue to diversify its Preo products in line with customer demand.

Satisfaction Returns

Maintaining its position as a brand of firsts Teknosa introduced yet another novelty in the sector and launched "Satisfaction Returns" in 2018. Satisfaction Returns are applied to all products other than categories excluded for reasons such as hygiene and give customers the opportunity to return their products within 30 days following the purchase.

Leasing Services for SMEs

Teknosa introduced a new service to offer easy payment options for SMEs, enterprises of various sizes and occupational groups in 2018. As part of leasing services for technology products provided by Teknosa, enterprises may meet their needs for electronic goods through 15 to 60 months of fixed-rate installment options without applying filing fee.

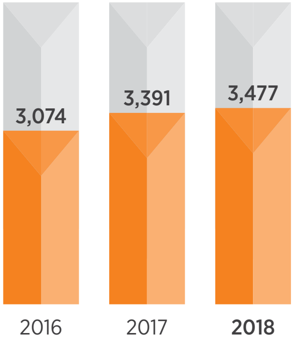
SMEs and occupational groups can now benefit from Teknosa's leasing services in a wide range of product options from mobile phones and security cameras to notebooks, white goods and TVs, thus managing their cash more efficiently and focusing on different investments for their business.

Awards and Achievements in 2018

- “Lovemark” in the Technology Market category of Turkey’s Lovemarks 2018 Survey
- “The Technology Market with the Highest Customer Loyalty” in the Voice of Turkey’s Customers (TMS) Survey
- “The Best Customer Experience” in the Electronics Market category of the A.L.F.A Awards
- “The Most Reputable Brand of the Year” in the Electronics Market category of the ONE Integrated Marketing Awards
- “Favorite Technology Market” and “Anchor Store” in Turkey’s Number 1 Brands Survey
- “Turkey’s Most Reputable Brand” in the Technology Markets category of the Reputation Index Survey of Turkey
- ‘Coolest Brand’ in the Technology Markets category of Cool Brands Survey
- “The People’s Favorite” prize for teknosa.com in the Retailing & Merchandising category of the Golden Spider Web Awards
- Gold and Silver Prize at the Social Media Awards
- 1 Felis and 2 Achievement Awards at the Felis Awards

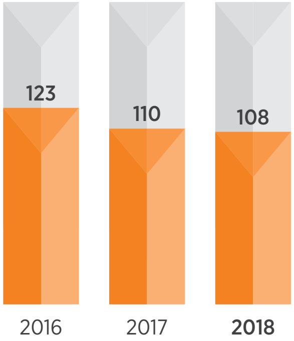
Key Financial and Operational Indicators

Net Sales (TL Million)



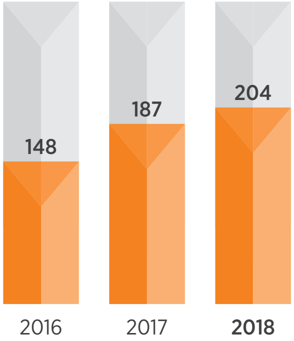
Teknosa increased net sales to TL 3,477 million in 2018.

Sales Area (Thousand m²)



Teknosa performed sales operations on a total of 108 thousand square meters of sales area in 2018.

E-Commerce Sales (TL Million)



Placing importance on digitalization, Teknosa increased e-commerce sales to TL 204 million in 2018.

Financial Indicators (TL Million)	2016	2017	2018
Net Sales	3,074	3,391	3,477
Total Assets	762	727	760
Total Equity	-62	-43	-103
EBITDA	38	173	158
Net Profit/(Loss)	-161	20	-65

Operational Indicators	2016	2017	2018
Sales Area (Thousand m^2)	123	110	108
Number of Stores	210	204	205
teknosa.com Sales (TL Million)	148	187	204

Financial Ratios	2017	2018
Current Ratio (Liquid Assets/Short Term Liabilities)	0.73	0.69
Liquidity Ratio (Liquid Assets-Stocks/Short Term Liabilities)	0.18	0.12
Total Liabilities/Shareholders' Equity	-17.76	-8.38
Total Liabilities/Total Assets	1.06	1.14

At Teknosa, we continued to make investments on the path to become the Technology Market of Turkey in 2018 and undertook cornerstone projects to reach our current and future goals.

Ata Köseoğlu
President of Retail Group of Sabancı Holding
Chairman of Board of Directors of Teknosa

Esteemed Shareholders,

Although 2018 was challenging in terms of economic outlook, Teknosa continued to make investments with the goal of becoming the Technology Market of Turkey. The Company undertook projects that were cornerstones for achieving its current and future goals.

In 2018, tensions were running high in the global economy, due to debates on Brexit, trade wars, shrinking liquidity, the declining risk appetite of investors and the "yellow vest movement." Along with these events, we faced problems in Turkey due to developments in our region. Foreign currency fluctuations, in particular, in the second half of the year, changed the balances.

As the Sabancı Group, we continued to make advances, with our belief in Turkey and confidence in the sector, even in the face of these challenges. Our vision, "the Sabancı of the New Generation" was our guiding light as we were taking these steps. Driven by the concept of new generation, we continued to pursue not only "what is new" but also "what lies beyond new" in every field - in our investments, in our ways of doing business and in our HR approaches and worked for the present and the future of Turkey.

Teknosa is today among the favorite, most recognized and reputable Sabancı Group brands for consumers. Teknosa preserves its position as the playmaker of the sector, while continuing to win the hearts of Turkish people.

The consumer electronics market, in which Teknosa operates, saw a decline in demand due to rising exchange rates, additional taxes on imported products and limitations on installments and credit/finance in 2018. Once the consumer confidence index hit the last ten years' record lows in the autumn, the market shrank on a year-over-year basis for the first time after a long period in September and October. However, it closed 2018 with single-digit growth, albeit lower compared to the last five years, and reached a size standing for TL 60 billion.

We deployed a new CRM platform that will offer personalized suggestions for our customers.

As the access point for technology in Turkey, Teknosa saw 2018 as an opportunity to transform and improve its way of doing business despite the adverse impacts of economic indicators. The Company invested approximately TL 40 million in infrastructure and transformation projects. Growing in the same stores, our Company achieved a turnover of TL 3.5 billion. The Company also succeeded in gross profitability improvements by focusing on cash flows and stock levels - a focal point in a challenging year.

As the undisputed favorite of the sector with its brand value, high number of visitors, innovative power and trained staff, Teknosa formed a structure that enabled it to take and implement fast analytical decisions at the same pace as the consumers of the new era. The brand put the management of big data, the new currency of the business, at the core of all its processes, including the deployment of a new CRM platform that will offer personalized suggestions for customers.

In 2019 that Teknosa will define the trajectory of next-generation retailing, we are aiming to focus on leadership, grow above the sector and increase our market share.

Teknosa.com, the online showcase of the sector and our stores, gained a brand-new infrastructure and interface that offers consumers a more seamless and excellent omnichannel experience.

Internet usage rates for age groups from 16 to 74 years reached 73% in Turkey. However, the share of online sales in electronics retail was 4% in 2018: In the US 29%, and in Europe 25% of technology purchases are made through online channels. In contrast, the low single-digit figures in Turkey reveal a huge potential yet to be exploited in this field. Teknosa focuses on tapping into this potential in the most effective manner, through an omnichannel structure, speed and digital channels that make a difference with dynamic content, as well as its wide store network.

We believe that in 2019, we will continue to experience the impacts of events that gave rise to problems in the previous year. However, like all the companies of the Sabancı Group, Teknosa will keep on steering the present and the future of its sector, driven by its vision of "the Sabancı of the New Generation." It will do so by 'communing' with technology, investing in more qualified human resources with improved digital skills, designing new business models and taking steps for digitalization in all its processes.

Despite all the uncertainties, we believe that this period will bring along opportunities for brands like Teknosa, which can take swift actions, listen to consumers almost in real time and offer seamless services with an omnichannel format tailored for needs, as well as thrive on a strong ecosystem. While mobilizing all our sources for Teknosa to make use of opportunities, we also make our plans to manage risks in the most effective manner.

In 2019 that Teknosa will define the trajectory of next-generation retailing, we are aiming to focus on leadership, grow above the sector and increase our market share.

I wish 2019 brings successful results for our country and Company and also thank all our stakeholders for contributing to Teknosa's progress towards its goals.

Respectfully yours,

Ata Köseoğlu
President of Retail Group of Sabancı Holding
Chairman of Board of Directors of Teknosa

Board of Directors

Ata Köseoğlu
Chairman of the Board of Directors

Ata Köseoğlu graduated from Boğaziçi University Department of Mechanical Engineering, obtained his Master's degree from the Department of Electrical Engineering at Lehigh University (Pennsylvania, USA) and his MBA from Boston University (Massachusetts, USA). He started his banking career in 1987, and served as the Assistant General Manager at Finansbank until 1994.

Köseoğlu also served as Managing Director, respectively, for Bear Stearns in New York, Société Générale in Paris, and Credit Suisse First Boston Bank in London. He joined BNP Paribas/TEB Group and, in his last role, served as the Chairman of the Board of Directors and CEO of TEB Investment.

Köseoğlu joined Sabancı Holding in 2011 and was appointed as Strategy and Business Development Group President. Since April 1, 2017, he has been serving as the Retail Group President and the Chairman of the Board of Directors of Carrefoursa and Teknosa. Ata Köseoğlu is also an Associate Member of the European Roundtable of Industrialists (ERT), Head of TUSIAD US Network, a Board Member of the Istanbul Rotary Club, and the president of the Boston University Turkey Alumni Office.

Hakan Timur
Vice Chairman

Hakan Timur graduated from Istanbul University with a Bachelor's degree in Economics in English, and obtained his Master's degree in Energy and Technology Management from Sabancı University. He started his career at Marsa-Kraft Foods International in 1997 and, respectively, served as Human Resources Manager in the Food Group, Human Resources Manager at Sabancı Holding, Global Human Resources Director at Kordsa Global, Assistant General Manager of Human Resources at Akçansa. He also served as Chief HR and Corporate Competencies Officer at Enerjisa. As of February 1, 2018, he has held the office of Human Resources Group President at Sabancı Group.

Hakan Timur also serves as an Executive Board Member at Sabancı Holding, and as a Board Member at the Kordsa Global, Çimsa, Avivasa, Carrefoursa, Teknosa and Sabancı DX companies.

Levent Demirağ
Board Member

Born in 1959, Levent Demirağ graduated from Ankara University Faculty of Political Science. He served as Public Accountant in the Ministry of Finance from 1980 to 1992, and began working as Counselor at Sabancı Holding in 1994. He was appointed as Financial Affairs Director in 2007.

Since May 2010, Levent Demirağ has served as Head of the Department of Financial Affairs, Accounting and Investor Relations, at Sabancı Holding. He is a Board Member at Group companies.

Uğur Gülen
Board Member

Uğur Gülen received his Bachelor's degree from Middle East Technical University Department of Industrial Engineering, and obtained a Master's degree from the same department.

His career has included various positions at Interbank, Denizbank, Ak Internet and MNG Bank. From 2004 to 2009, he served as the Assistant General Manager at Akemeklilik and AvivaSA Emeklilik ve Hayat A.Ş.

Since May 2009, Uğur Gülen has served as Aksigorta General Manager and as a Board Member.

Mehmet Tanju Ula
Independent Board Member

Mehmet Tanju Ula completed his secondary and high school education at Kadıköy Maarif College, gaining admission to Middle East Technical University, Department of Mechanical Engineering in 1965. He graduated with the titles of B.Sc in 1969, and MSc. in 1971.

He worked as a project engineer at ATAŞ Refinery from 1971 to 1974, and at TPAO General Management between 1975 and 1976. He was assigned as a planning engineer at LASSA A.Ş. on June 1, 1976, and later became the Material Planning, Control and Production Planning Director. In 1985, he was transferred to Kordsa A.Ş. in the role of Supply Director. After serving as the Assistant General Manager-Commerce, Tanju Ula served as General Manager at DUSA A.Ş. in 1996, Sakosa A.Ş. in 1999, and Beksa General Manager in 2004, respectively. In 2005, Tanju Ula returned to Kordsa A.Ş. as General Manager. Until his retirement in April 2009, he worked as Vice Chairman and First Region General Manager of Kordsa Global A.Ş. After his retirement, he worked as the General Secretary of the Sabancı Museum for 1.5 years.

Mehmet Tanju Ula is currently the Independent Board Member of Brisa Bridgestone Sabancı Lastik San.ve Tic. A.Ş and Yünsa Yünlü San.ve Tic. A.Ş, and an Independent Member of Board of Directors (BOD) of PT Indo Kordsa Tbk Indonesia.

Mehmet Kahya
Independent Board Member

Mehmet Kahya completed a double major and received Bachelor's degrees in Chemical Engineering and Economics from Yale University (Connecticut, USA). He obtained his MBA in Finance, Marketing and Operational Research from the Kellogg School of Management at Northwestern University (Illinois, USA).

Beginning his professional life as Chief of Sasa Management Services, Kaya later became the leader at MKM International (Holland) and Sibernetik Systems, which he founded. Returning to the Sabancı Group as Vice Chairman of Automotive Group, he served as Vice Chairman and President of Temsa and Vice President of Toyotasa. He also served as a member of the Sabancı Holding Planning and Steering Council, and as a Member of the Board of Directors of Temsa, Toyotasa, and Sapeksa.

Later, Kaya took on the roles of Executive Director and Deputy Chairman of the Board of Directors of Carnaud Metalbox, and Chairman of Uzel Makine. He also served as an Executive Committee Member of Uzel Holding, as Director General and Vice Chairman at the Paint Group of DYO, as an Executive Committee Member at Sarten Ambalaj, as Vice Chairman of the Board of Directors of Gierlings Velpor (Portugal), and as Chairman of Assan Alüminyum.

Currently offering consultancy services for strategy, restructuring, profitability transformation, growth, mergers and acquisitions projects at Kronus Company, which he founded, Mehmet Kaya also serves as an Independent Board Member at Carrefoursa and Brisa, as a Board Member at Electrosalus and as a shareholder advisor at Enerjeo Gediz and Enerjeo Kemaliye.

We have maintained our position as the most widespread technology chain of Turkey, with 205 stores in 68 cities in 2018 and hosted almost 200 million visitors in all our channels.

Bülent Gürcan
Teknosa General Manager

Esteemed Shareholders,

The year 2018 was one of leaps in digital transformation, as we planned for Teknosa. As for the technology retail sector, though, we went through a challenging period in which dynamics shifted considerably.

Indeed, all indicators were on track, confirming the expectations for the year, until June. At that point, fluctuations in exchange rates and the upside pressure they exerted on prices, coupled with many other factors including limitations on the number of installments, pushed the consumer to gear down on spending as of the second half of the year. In autumn, the consumer confidence index hit rock bottom, resulting in two months of negative growth in the technology products market. Nonetheless, despite uncertainties in the economy, the market performed a YoY growth of 9.5% and reached TL 60 billion in volume in 2018.

At Teknosa, we have been optimizing our channels, business processes and product mix in line with new customer behaviors and expectations since 2016. And we saw 2018 as an opportunity to transform and improve our business even in the face of all these challenges. We have strengthened our implementations undertaken for a flexible and customer-centered structure in the last years with instrumental projects. During the year, we invested almost TL 40 million in digitalization, omnichannel infrastructure and our new CRM system.

During the year, we invested almost TL 40 million in digitalization, omnichannel infrastructure and our new CRM system.

Our Company achieved a turnover of TL 3.5 billion in 2018 and we maintained our position as the most widespread technology chain of Turkey, with 205 stores in 68 cities in 2018, hosting almost 200 million visitors in all our channels.

A recent survey on the process of purchasing technology products reveals that 76 out of 100 people search products online but purchase in the store. This is the vision we adopt in operating our online channels. In addition to the growth potential of e-commerce, we place great importance on its contribution to in-store sales. Therefore, we moved teknosa.com, an integral part of our integrated omnichannel strategy, to the global e-commerce platform Hybris in the last quarter of 2018. Tapping into this infrastructure and its new interface, we started to offer a much faster, integrated and seamless shopping experience. We will continue improving our platform in 2019.

In 2018, we started to work on dynamic pricing, inventory management, replenishment, assortment and store and customer segmentation. We established a smart system that follows up today and predicts the future so that our customers can access the right product at the right time in the right place and with the right price.

We also deployed a brand-new CRM platform to offer a unique experience for our customers. We have individualized and enriched customer data across all our channels. Today, we are able to segment our customers by their values and behavior and analyze them according to their brand preferences and shopping behavior. This enables us to provide suggestions in line with customer expectations. We have around 15 million pieces of individual customer data and we expect that the effects of this asset will be felt more strongly both on our performance and on customer experience.

We aim to create high added value and contribute to the Turkish economy, while cementing our power in technology retailing and our position as a playmaker, also in 2019.

Teknosa guides customers on their technology shopping journeys before and during sales and it is the brand that introduced after-sales services to the sector in Turkey. We have undersigned yet another 'first' in this field in 2018, having launched "Satisfaction Returns" This program provides customers with the option of returning their purchases within 30 days, only at Teknosa.

The first and only mobile communication line in Turkish technology retailing, Teknosacell increased the number of subscribers by 40% in 2018, through generous and affordable Internet packages and exclusive benefits. We continued to expand the product range of our private label Preo. In the last twelve months, we have introduced customers more than one million Preo-branded products.

With the effects of global dynamics, 2019 will not be an easy year. In this period, reliable brands with flexible structures, that have managed to keep the pulse of customers for many years and under any circumstances and made investments - just like Teknosa - will come to the fore. We are therefore planning to expand our sphere of influence along this understanding, while capitalizing on the exclusive experience and services that we offer.

Our approach to digitalization covers the supply chain, delivery of the product to the end consumer and after-sales. We will keep prioritizing innovative projects that will generate customer data and insights for us in the upcoming period.

We aim to create high added value and contribute to the Turkish economy, while cementing our power in technology retailing and our position as a playmaker, also in 2019.

I would like to thank all the members of the Teknosa family for their selfless work, our customers for choosing us again as their most favorite and preferred brand and our business partners and shareholders for standing by us in overcoming difficulties in 2018, which was a critical year of transformation for us.

Respectfully yours,

Bülent Gürcan
Teknosa General Manager


Herkes İçin Teknoloji

Executive Committee

Bülent Gürcan
General Manager

Bülent Gürcan graduated from Istanbul Technical University, Department of Civil Engineering in 1988.

Mr. Gürcan worked as Sales Manager at Sony Gulf between 1992-1993, as Managing Partner at Max Mara between 1993-2000, as Operations Manager at TopShop, Topman/ Giysa between 2000-2002 and as Retail Director at Başer Holding between 2002-2004. Having served as Director of Sales and Assistant General Manager of Operations at Teknosa between 2004-2013, he was CEO of Media-Saturn Turkey for the subsequent two years.

Mr. Gürcan has been the General Manager at Teknosa since April 1, 2015.

Ümit Kocagil
Assistant General Manager - Finance

Ümit Kocagil graduated from Marmara University, Department of Economics (English).

Mr. Kocagil began his professional career at the Tax Department of Ernst & Young (Arthur Andersen) in 1995. From 1999 to 2007, he worked at Danone Tikveşli as Budget Planning & Control Specialist, Budget Planning & Control Manager and Reporting & Accounting Manager, respectively. Between 2007-2014, he served as Accounting, Reporting and Tax Group Manager at Carrefoursa and as Accounting, Closing and Tax Group Manager after 2014.

Mr. Kocagil has been serving as the Assistant General Manager - Finance since October 25, 2016.

Ayşegül Bahçıvanoğlu
Assistant General Manager – Marketing Communications& Customer Experience

Ayşegül Bahçıvanoğlu graduated from New York University's Stern School of Business.

Ms. Bahçıvanoğlu began her professional career in the Corporate Banking Department at Citibank and later worked as Senior Management Consultant at A.T. Kearney, as Advisor to the CEO at Yurtiçi Kargo Geopost, and as Restructuring Manager at Mey İçki A.Ş., Texas Pacific Group, respectively. After joining Peppers and Rogers Group in 2007, she served as Director of the Brussels Office from 2008 to 2011 and as Managing Partner in the Johannesburg Office, South Africa for the last two years.

Ms. Bahçıvanoğlu, who began working for Teknosa as Director of Strategy and Business Development in 2013, acts currently as the Assistant General Manager - Marketing Communications & Customer Experience.

Tansu Öztorun
Assistant General Manager - Retail & Dealer Sales and Operations

Tansu Öztorun graduated from Istanbul Technical University, Department of Mechanical Engineering and received his Master's degree from the Department of Mechanical Engineering at Istanbul University. He also completed the International Business program at Istanbul University.

Mr. Öztorun began his professional career as Product Engineer at Motosan in 1990. He later worked as Post Sales Engineer at Kurteks A.Ş. and as Trade Specialist at Otokar. At Toyotasa, where he spent 11 years, he worked as Marketing and Sales Training Specialist, Sales Training Chief, Direct Sales Chief, Fleet Sales Chief, Corporate and Special Sales Manager and Toyota Retail System (TRS) Manager respectively. Between 2008-2011, he worked as Sales and Marketing Director at Hedef Filo Servis A.Ş. and between 2012-2014, as a consultant at Bir Psikodrama Eğitim ve Danışmanlık and later as General Manager at a Renault Authorized Dealer.

Mr. Öztorun, who began working for Teknosa as the İklimsa Director of Sales in 2014, continues to work as Assistant General Manager - Retail & Dealer Sales and Operations.

Doğa Oran
Assistant General Manager - Supply Chain

Doğa Oran graduated from the Department of Economics, Middle East Technical University, in 1998. He obtained an Executive MBA from Sabancı University in 2002.

Mr. Oran began his professional career in 1998 at the Audit Department of PricewaterhouseCoopers. He worked as Corporate Development Specialist at Sabancı University between 2001-2004, as Senior Specialist at Xerox Financial Planning and Analysis Department between 2004-2005, as Director in the Corporate Finance Department of Garanti Investment between 2005-2013, and as the CFO of Crate & Barrel Turkey and Russia between 2013-2014. He was appointed to the Strategy and Business Development Group at Sabancı Holding and worked there between 2015-2017. Since April 2017, he has been acting as Senior Manager in the Retail Group.

Mr. Oran, who started serving Teknosa as Assistant General Manager in charge of CRM and Data Analytics on March 1, 2018, continues to work as the Assistant General Manager - Supply Chain.

Göksel Marangoz
Assistant General Manager - Information Technologies

Göksel Marangoz graduated from the Department of Computer Engineering at Istanbul University in 2000. He obtained an MIS from the Informatics Institute of Istanbul Technical University in 2003.

Mr. Marangoz began his professional career in 1999 as a System Support Engineer at HP Turkey Outsource team. He worked as IT Specialist and Safety Coordinator at IBM Turkey between 2005-2007; Group Director of Infrastructure, Systems and Safety at Koç Holding's Head Office between 2007-2011; and IT Implementation Operations Manager at Turkcell and IT Service Continuity Coordinator at Turkcell Group between 2011-2014. From 2014 to April 2018, he served Opet A.Ş. as the CIO in charge of information technologies and automation teams.

Since April 18, 2018, Göksel Marangoz has been serving at Teknosa as the Assistant General Manager - Information Technologies.

Ebru Anıldı
Human Resources Manager

Ebru Anıldı graduated from Hacettepe University's Statistics Department in 1995.

Mrs. Anıldı began her career as a Software Support Specialist at Likom Yazılım in 1995. Later, she worked in human resources at Bayındır Holding between 1997-1999, and for the Uyar Group between 1999-2000. After working as Project Consultant at Hay Group, she worked at Sabancı Holding between 2002-2008 as Human Resources Specialist and subsequently worked at Teknosa as Compensation and Labor Relations Manager between 2008-2016.

Since 2016, Ms. Anıldı has served as Human Resources Manager at Teknosa.

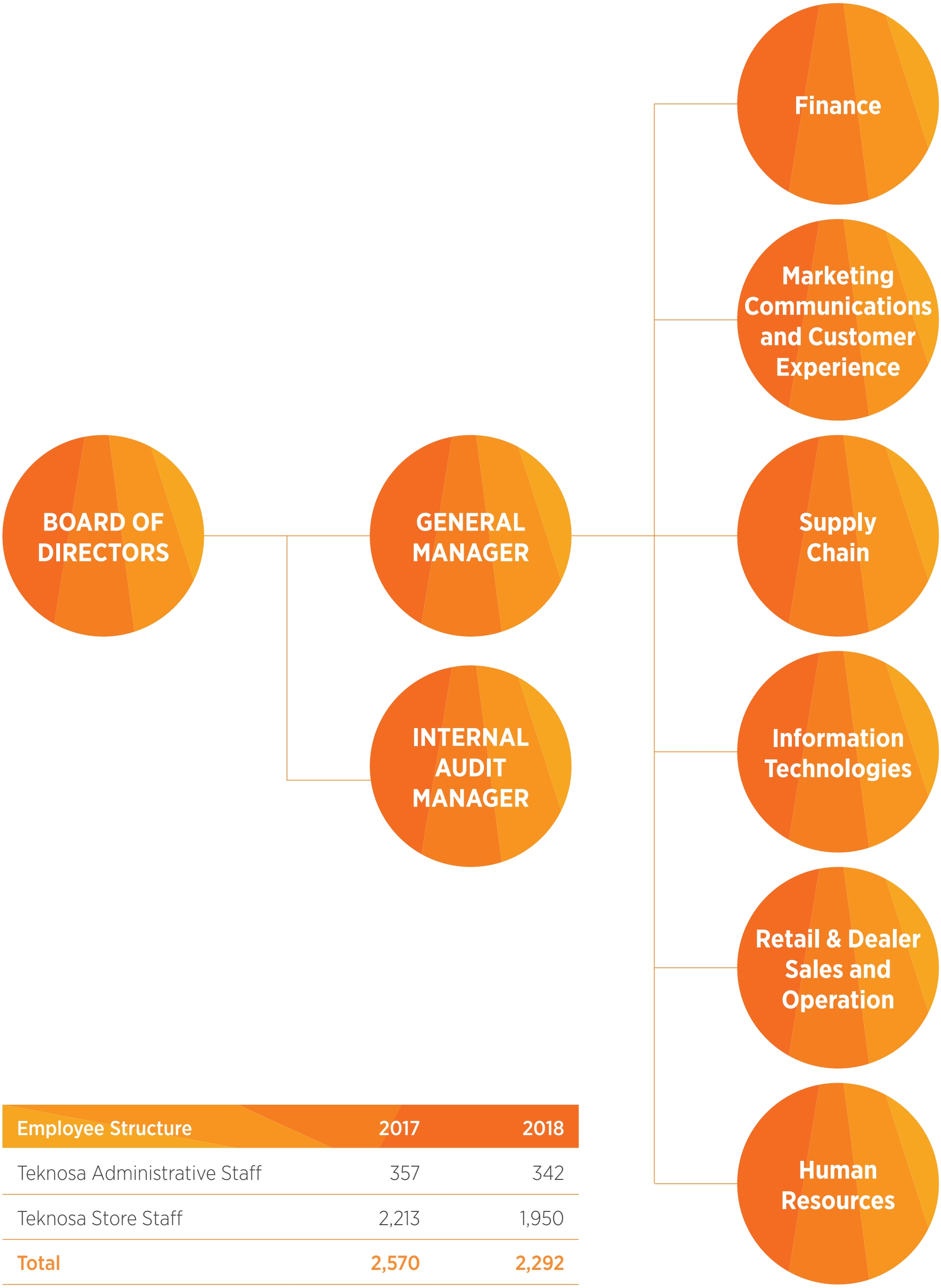
Executive Committee Members who retired from office within the period

Nuran Varol Erzincan - Assistant General Manager - Information Technologies
January 31, 2018

Adem Tansel Tuzcu - Assistant General Manager - Sales
October 1, 2018

Kayhan Ozar - Assistant General Manager - Supply Chain
October 1, 2018

Organizational and Personnel Chart



Employee Structure	2017	2018
Teknosa Administrative Staff	357	342
Teknosa Store Staff	2,213	1,950
Total	**2,570**	**2,292**

Teknosa will continue to focus on value-added products and services in the upcoming period as well, driven by its next generation retailing understanding.

The Role Model of the Sector

Teknosa is the pioneering retail chain that makes a difference in the industry with its omnichannel value-added products and services.

Since its foundation, Teknosa has been a role model in the industry with a focus on customer experience through its unique concepts, its diverse range of products from distinguished brands, services such as Teknosacell and Dr. Teknolog and investments in digitalization and the omnichannel area.

After-Sales Services

In order to meet customers' technological needs anywhere and anytime, Teknosa provides seamless services through its call center, in-store customer services desks, social media accounts and online store teknosa.com.

The Teknosa Call Center ensures customer satisfaction by analyzing the entire retail process meticulously in order to meet every information need of the customers. Accordingly, customers are able to access the contact details of stores, products in the process service actions, or whether or not a product is in stock, through the automated voice response system without waiting for a customer representative at the Call Center. Teknosa consistently improves its call center services wherever possible so that customers can complete their transactions without needing to speak with a customer service representative.

Through its on-site product services, technical support hotlines and extended warranty services, Teknosa provides customers with services that will help determine the best solutions to the problems, risks and needs that could arise in the future. Teknosa was the first company in the sector to introduce the majority of these services.

With the customer tracking software, customers who get in touch with the Call Center are able to follow up on the status of their queries through the link e-mailed to them. In addition, customers are also able to use this web service to create a new request record without having to contact the Call Center again.

İklimsa

İklimsa, which leverages the accumulated experience of Sabancı Holding for 34 years, positions itself as “Turkey’s Air Conditioning Center.” The Company offers the world’s leading brands to customers at its distinguished centers. İklimsa stores include Mitsubishi Heavy Industries, Sigma (private label), GE Appliances, Sharp, Samsung air-conditioners and Sharp refrigerators.

With five different brands and nearly 200 models, İklimsa provides services in 205 authorized dealerships in 48 cities, in 272 air-conditioning service centers in 68 cities, and in 147 white goods service centers in 66 cities in Turkey. İklimsa maintained its growth in 2018 and actively focuses on enhancing its after-sales services to elevate customer satisfaction. Teknosa’s electronic product mix started to be offered, exclusively for corporate customers at İklimsa dealerships.

Investments

The most widespread and accessible technology retailer of Turkey, Teknosa announced 2018 as a year of mobilization in digital transformation and continued to make investments in line with its omnichannel strategy.

Teknosa will keep focusing on value-added products including after-sales services, its mobile line Teknosacell and its private label product family Preo, which generate high profit margins and contribute to the brand image, as part of its understanding of “next-generation retailing” in the upcoming period as well. The Company will actively utilize data analytics in implementing innovations, while maintaining at full speed investments in digital transformation in line with its omnichannel strategy.

Teknosa has human resources processes that embrace the Company's values and culture, place the utmost emphasis on employee health and security, are in line with legal regulations and are based on data-driven decision-making.

Human Resources

Teknosa's Human Resources policy is based on the principle of "the right person, for the right job at the right time" in line with the Company's targets and strategies. The policy includes the following aims:

- meeting human resources needs with qualified personnel;
- preparing and implementing training programs by determining the training needs that will contribute to employees' professional development,
- developing and sustaining systems that offer employees opportunities for promotion and success, as well as performance assessments; and
- enhancing job satisfaction.

Employee feedback obtained through satisfaction surveys, employee commitment studies and one-on-one discussions form the most important basis for constantly improving related processes.

Teknosa adheres to human resources processes that embrace the Company's values and culture, place the utmost emphasis on employee health and security, are in line with legal regulations, and are based on data-driven decision-making. The primary focus of the human resources strategy is employees. Teknosa prioritizes standing by its employees and supporting their professional development through talent management, succession planning, training, personal development and recognition. The Company also aims at enhancing employee commitment.

Performance Management

The performance assessment system includes a fair, concrete and measurable Performance Management System that allows the Company to track the employee's contribution to business success and helps foster an open dialogue between managers and employees. Data obtained through this system is utilized in salary determination, rewards and recognition, and career and training processes.

Employee Commitment

Employee feedback and suggestions are regularly followed through the "Employee Commitment Survey." This survey provides the Company with an opportunity to assess employees' perceptions, expectations and satisfaction levels, and receive feedback on processes and procedures. It also allows the Company to identify areas of improvement. The Employee Commitment Survey is conducted by an independent research company, and all responses are confidential. The results are analyzed by the Human Resources department, and the output is then used to conduct focus meetings and development plans. To accurately determine employee expectations and determine a middle ground between these expectations and what the Company can offer, feedback is diligently evaluated, and actions in the area of corporate development are carefully planned.

Career Management

Regular succession plans are developed by assessing employees' experience, skills and potential. Staff deemed suitable for certain positions are provided with the relevant preparatory training and development opportunities. Those who successfully complete previously-determined processes and training programs are promoted to higher positions.

Ethical Values

The Company pays the utmost attention to helping employees internalize and act upon ethical values conveyed to them via in-house communication channels and during training programs. There is also an "Ethics Board Advisor." Employees can share, in confidence, any issues and problems that they are unable to resolve on their own, or that may be uncomfortable to discuss in a public forum.

Remuneration Policy

At Teknosa, employee compensation is determined in accordance with the Company's vision, mission, objective and values and under the "Business Family Model and Compensation Management System" in order to ensure competitive, fair, motivating compensation for employees, as well as to enable cost controlling.

Remuneration to be provided to the Board of Directors is determined at the General Assembly. All benefits and compensation are detailed under the notes to the financial statements.

Environment

In line with environmental sustainability efforts, Teknosa continues to work towards the efficient use of natural resources, energy efficiency, waste management and waste recycling.

The Company is aware of its responsibility for being the pioneer in the sector and therefore continued to collect electronic waste, waste batteries and recyclable packaging in 2018. It works together with local administrations and authorized bodies for electronic wastes, packaging wastes and other types of waste.

Teknosa also aims at raising employees' awareness on environmental sustainability. Teknosa Volunteers, consisting of Company employees, carry out nature and wildlife protection activities with other volunteer groups.

CORPORATE SOCIAL RESPONSIBILITY

Teknosa puts emphasis on social responsibility activities to enable wider communities to benefit from technology. Teknosa also provides technological support to civil society organizations and educational institutions, contributing to the active performance of beneficial social activities.

Technology for Women

Within the scope of the "Technology for Women" project, free digital literacy trainings have been organized for women in different cities of Turkey since 2007. As part of the project, which aims to promote a more active role for women in social and cultural life as well as in the use of technology, 17 thousand women in 66 cities were offered free-of-charge digital literacy courses. The courses include topics such as writing on a computer, navigating the internet, sending e-mails and using mobile devices and social media; thereby enabling women to communicate with their children, grandchildren, friends and family; interact with the world; access information about their areas of interest; perform transactions that make life easier for them, such as online banking and shopping and use social media platforms efficiently for their jobs.

Capital and Shareholding Structure

Teknosa's approved and issued capital consists of 11,000,000,000 shares, each registered at 1 kurus nominal value.
(31 December 2017: 11,000,000,000)

As of December 31, 2018, Teknosa's capital structure consisted of the following:

Corporate Name/Name-Surname	Capital Share (TL)	Capital Share (%)
Hacı Ömer Sabancı Holding A.Ş.	66,310,509.61	60.28
Dilek Sabancı	5,734,598.69	5.21
Sevil Sabancı	5,734,598.68	5.21
Other	32,220,293.02	29.29
Total	**110,000,000.00**	**100.00**

Subsequent Events Following the Balance Sheet Date

Important developments in our Company after the accounting period that ended as of the 31st of December 2018, are as follows:

The Headquarters registered at "Barbaros Mah. Mor Sümbül Sok. No:7/3F 1-18 Nida Kule Ataşehir Güney Ataşehir-Istanbul" was moved to "Carrefoursa Plaza Cevizli Mah. Tugay Yolu Cad. No:67 Blok B 34846 Maltepe-Istanbul" on February 11, 2019.

Other Information

Information on Report Explaining Relations with Controlling Shareholders and Subsidiaries in the Framework of Article 199 of the Turkish Commercial Code

In the report, our Company evaluated the following transactions conducted with the controlling company and associated companies during the reporting year (January 1, 2018 - December 31, 2018) in accordance with accountability principles and conditions known to us: All legal transactions as well as all legal transactions conducted under the direction of the controlling company, and all other measures taken, or refrained from being taken, to the advantage of the controlling company, or one of its subsidiaries in 2018, under the circumstances and conditions known to the Board at the time.
In the report issued by the Teknosa Board of Directors on February 18, 2019, it was concluded that, in all transactions performed by Teknosa with the controlling company and the associated companies of the controlling company in 2018, all necessary legal transactions were conducted and all measures taken as described as per Article 199 of the Turkish Commercial Code and as required by the responsibilities assigned to the Board. The transactions are in conformity with the precedents, according to controlling company statements as per the relevant articles of the Turkish Commercial Code numbered 6102, and we declare that Teknosa did not incur any loss due to the fact that it operates under a Group of Companies.

Information on The Company's Acquisition of its Own Shares

Teknosa does not hold any acquired shares of its own.

Statement of Independence

With respect to laws, articles of association and the criteria defined by Capital Markets Board's Communiqué on Corporate Governance numbered II-17.1, I am nominated to serve on the Board of Directors of Teknosa İç ve Dış Ticaret A.Ş. (the Company) as an Independent Board Member, and therefore I agree and undertake that I:

a) do not have a relationship in terms of employment at an administrative level to take on significant duty and responsibilities within the last five years, do not own more than 5% of the capital or voting rights or privileged shares either jointly or solely or do not have established a significant commercial relation (according to the Turkish Accounting Standards - TMS 28) between the Company, companies on which the Company hold control of management (as per the "TFRS 10" Standard) or significant effect (as per the TMS 28) and shareholders who hold control of management of the Company or have significant effect (TMS 28) in the Company and legal entities on which these shareholders hold control of management and myself, my spouse and my relatives by blood or marriage up to second degree;

b) have not been a shareholder (5% and more), an employee at an administrative level to take on significant duty and responsibilities or a board member within the last five years in companies from and to which the Company purchases or sells goods or services at a significant level within the framework of the contracts executed, especially on audit (including tax audit, statutory audit, internal audit), rating and consulting of the corporation, at the time period when the Company purchases or sells services or goods;

c) have professional education, knowledge and experience in order to duly fulfill the duties assigned for being an independent board member;

d) do not serve/will not be serving as a full time employee at public authorities and institutions after being elected, except being an academic member at a university provided it is in compliance with the relevant legislation;

e) am residing in Turkey in accordance with the Income Tax Law dated 31.12.1960 and numbered 193;

f) am capable to contribute positively to the operations of the company, to maintain my impartiality in conflicts of interest between the company and the shareholders, have strong ethical standards, professional reputation and experience to freely take decisions by considering the rights of the stakeholders;

g) am able to allocate time for the Company's business in order to follow up the activities of the Company and duly fulfill the assigned duties;

h) have not been a member on the Company's Board of Directors for more than a term of six years in the last ten years;

i) am not the independent member of the board of directors in more than three of the corporations as such; the Company or the controlling shareholders of the Company who hold the control over the management of the corporations; and in more than five corporations in total which are admitted to trading on the stock exchange;

j) have not been registered and announced as a Board Member representing a legal entity

I hereby present my statement to the knowledge of the Board Members, General Assembly, our shareholders and all stakeholders.

Mehmet Tanju Ula

Statement of Independence

With respect to laws, articles of association and the criteria defined by Capital Markets Board's Communiqué on Corporate Governance numbered II-17.1, I am nominated to serve on the Board of Directors of Teknosa İç ve Dış Ticaret A.Ş. (the Company) as an Independent Board Member, and therefore I agree and undertake that I:

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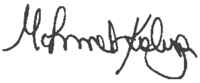
I hereby present my statement to the knowledge of the Board Members, General Assembly, our shareholders and all stakeholders.



Mehmet Kahya

Corporate Governance Principles Compliance Report

Section I - Corporate Governance Principles Compliance Statement

Teknosa, adopted the norm of complying with the four Corporate Governance Principles of Transparency, Equality, Responsibility and Accountability.

Our Company complies with all the principles; that are held obligatory and stipulated in the Communiqué (II-17.1) on "Determination and Implementation of the Corporate Governance Principles."

On the other hand, full compliance hasn't been achieved yet due to some difficulties experienced during the implementation of certain non-obligatory principles, due to ongoing debates about compliance with certain principles on the international platform as well as in Turkey, and also because of the inapplicability of some principles due to the structure of Teknosa and the market. The developments in this area are closely followed and compliance efforts continue.

In 2018, in accordance with the legislation, the Company made necessary public disclosures in order to inform the investors and analysts promptly, transparently, consistently, regularly and simultaneously regarding all the important information that may have an impact on their investment decisions and regularly updated the Investor Relations website. Moreover, the Company attended investor meetings and conferences in order to continuously ensure the best communication with investors and analysts. Developments in the Legislation were monitored closely and necessary actions were taken.

There are six members at the Teknosa Board of Directors in conformity with the Article n.4.3.1 of the Communiqué and there are two independent members in conformity with the exception stipulated in the first paragraph of the 6th Article of the Communiqué. Furthermore, the "Nomination Committee" and the "Remuneration Committee" liabilities stipulated in the 4.5.1 Article of the Communiqué are undertaken by the "Corporate Governance Committee." Moreover, although the Company pays special attention to comply with the provision of the 4.5.5 Article of the Communique on "Members of the Board of Directors cannot assume duties in more than one Committee," since the Committee membership requires professional expertise, members of the Board of Directors can be a member in more than one Committee.

Teknosa is aware of its social responsibilities; it complies with the regulations regarding environment, consumers, public health and with the code of ethics. Our Company supports and respects The Universal Declaration of Human Rights. The developments in the legislation and relevant implementations will be taken into consideration and necessary steps will be taken in the coming period as well.

Section II - Shareholders

2.1 Investor Relations Department

In Teknosa, Investor Relations Department reports to Assistant General Manager -Finance Ümit Kocagil, who is also the Member of the Corporate Governance Committee. On the other hand, liabilities of Investor Relations are fulfilled by the Finance and Investor Relations Manager H. Şenay Akıncı Özertan who is also a reporter in the Corporate Governance Committee, has the Capital Market Activities Advanced Level License. The Investor Relations Department can be accessed at yatirimciiliskileri@teknosa.com or at +90 (216) 468 36 36 or via fax number +90 (216) 478 54 41.

The Investor Relations Department is in charge of carrying out shareholder relations within the frame of Corporate Governance Principles. Its duties include:

- Ensuring that written correspondence between investors and the company, and other information/documentation records are maintained, secured and updated;
- Responding to written information requests by company shareholders about the company;
- Preparing and sending in advance to shareholders informational documents related to the General Assembly, and taking measures to ensure that the General Assembly proceeds in accordance with the relevant legislation, provisions of the Articles of Association and other existing company regulations;
- Ensuring and monitoring the fulfillment of liabilities arising from Capital Markets Legislation including all issues concerning corporate governance and public disclosure. Within this framework, all legal liabilities were fulfilled in 2018.

Finance and Investor Relations Department is in charge of regularly informing the shareholders and prospective investors about the Company's activities, financial condition and strategies, excluding confidential information and trade secrets, without causing any information inequality and it is also responsible for ensuring a two-way communication between the Company's management and the shareholders. In 2018, meetings were organized with a total of 25 investors and analysts, and approximately 100 queries via e-mail and telephone from shareholders and analysts were responded. As per existing regulations, the Investor Relations report on these activities in 2018 was finalized on December 31, 2018 and submitted to the Board of Directors on February 18, 2019.

2.2 The Exercise of Shareholders' Right to Obtain Information

As per applicable legislation, information (excluding confidential or proprietary information) is duly shared with shareholders, ensuring they receive first-hand information on Company strategies and activities.

In 2018, information requests of the shareholders that were made via phone calls or e-mails or the requests directed at the face to face meetings, were responded by the Investor Relations Department and the information that is of interest to the shareholders was announced on the Investor Relations website within the compulsory notification periods.

Appointment of a Private Auditor is not governed as a right in the Company's Articles of Association. In 2018, no request was received from the shareholders about this issue.

2.3 General Assembly Meetings

Regulations regarding Teknosa's General Assembly Meetings were specified in the "Teknosa A.Ş Internal Directive on Ordinary and Extraordinary General Assembly's Working Principles and Procedures" that is available on the Teknosa Investor Relations website's Information Society Services pages. Apart from this, as per the legislation, the announcements and documents that must be publicly disclosed via Public Disclosure Platform (KAP) before and after the General Assembly meetings, are available under the topic "General Assembly" that is under the Section "Corporate Governance" on Teknosa Investor Relations website.

Teknosa's 2017 Ordinary General Assembly meeting was held on the 27th of March 2018 at 3:00 pm, at the address of Sabancı Center Sadıka Ana 2 Meeting Room, Sabancı Center, 4. Levent, Beşiktaş, Istanbul.

Call for the General Assembly was made; as stipulated in the Law and Articles of Association, in a manner containing the agenda, via announcements/ads in the Trade Registry Gazette issue (dated 02.03.2018 no. 9528), via the Teknosa's website (www.teknosa.com) and the Electronic General Assembly System of the Central Registry Agency, by using all types of communication methods (besides the ones stipulated in the legislation) including electronic communication in order to reach the maximum number of shareholders, at least three weeks prior to the General Assembly meeting date. All kinds of information regarding the General Assembly, including the annual report and the financial statements, were made available and kept ready physically in the Company headquarters and on the website for the review of the shareholders.

In order for the shareholders to be represented in the General Assembly; both Electronic General Assembly System was used and the power of attorney form that will be notarized within the framework of the provisions of the Capital Markets Board Communiqué (II-30.1) was made available in the Teknosa Headquarters and on the website.

Thus, it was ensured that the shareholders who own dematerialized shares that are monitored by the Central Registry Agency and who also have right to attend General Assembly meetings, or their representatives who represent the shareholders with notarized power of attorneys, attended the General Assembly meetings personally or over the Electronic General Assembly system by using their secure electronic signatures. In consequence, the Company pursued practices that would not create inequalities among the shareholders and that would facilitate attendance to the meetings by using the easiest method at the lowest cost.

Agenda items are voted on by a show of hands during the General Assembly meeting.

Teknosa's Ordinary General Assembly Meeting was held with 61.52% participation ratio and TL 110,000,000.00 total nominal value of the Company was represented with 6,767,050,161 shares that have a total nominal value of TL 67,670,501.61

Members of the Board of Directors, Teknosa auditor, General Manager (CEO), Assistant General Manager -Finance (CFO) and the personnel who made the preparations of the General Assembly meeting attended the General Assembly meeting. However, except the shareholders, the stakeholders and media did not attend the meeting.

The meeting agenda included providing information about the 2017 Annual Report, Auditor's Report and Financial Statements; informing the General Assembly about charitable donations and aids; taking a resolution on the approval of Board appointments to fill the vacancies on the Board; acquittal of the Members of the Board of Directors from the activities conducted in 2017; determining the method of using the 2017 profit/loss; electing Board Members and determination of Board Members' terms of office; determining Board Members' rights such as wages, honorariums, premiums and bonuses; Auditor selection; providing information to the General Assembly about the donations and aids made in 2017; determining the upper limit for the aids and donations to be made in 2018; and authorizing the Chairman and Members of the Board of Directors to perform the transactions stipulated in Articles 395 and 396 of the Turkish Commercial Code.

At the General Assembly meeting; the information about the total TL 34,197.44 donation made by Teknosa in 2017 to the non-profit organizations, was presented to the shareholders. The upper limit of donations to be made in 2018 was determined as TL 250,000 and/or 5% of the net profit.

During the General Assembly, shareholders exercised their rights to ask questions and make suggestions. Meeting minutes of the General Assembly were publicly disclosed via Public Disclosure Platform, and all ads, announcements and documents regarding the General Assembly meeting were submitted for the information of the shareholders and stakeholders on Teknosa's website.

The shareholders who have control over the management, the members of the Board of Directors, managers with administrative responsibilities, and their spouses, and their relatives by blood and by marriage up to the second degree; did not make any important transactions which could cause a conflict of interest with the company or its subsidiaries and/or, on their behalf or someone else's behalf, did not make any commercial transactions intruding the business field of the company or its subsidiaries, or, did not join another company, dealing with the same type of commercial businesses, as a partner with unlimited liability ("unlimited partner"). The persons, except the ones mentioned above, who have opportunity to access the Company information, on their behalf, did not make any transactions that were within the scope of the business fields of the company.

2.4 Voting Rights and Minority Rights

According to Teknosa's Articles of Association, the Company does not have any privileged shares, and has a single right to vote for each share.

Minority shareholders and stakeholders are not represented in the Board of Directors. However, two independent members of the Board of Directors assume duties in the Board of Directors in order to equally represent the minority shareholders, in particular, and all the shareholders and the stakeholders. As of December 31, 2018, Teknosa did not have an associated company that is consolidated with the full consolidation method. Teknosa respects the exercise of minority rights, pursuant to the Turkish Commercial Code and CMB regulations, and the Company did not receive any complaints or negative criticisms regarding this matter in 2018.

2.5. Dividend Right

According to the Profit Distribution Policy approved at Teknosa's Ordinary General Assembly Meeting that was held on the 28th of March 2014; dividend was determined within the framework of the Turkish Code of Commerce provisions, Capital Markets Legislation, other relevant legislation and the relevant article of the Company's Articles of Association regarding profit distribution; and in line with Teknosa's mid and long term strategies, investment and financial plans; and by considering the economic situation of the country and the sector; and by maintaining the balance between the shareholders' expectations and Teknosa's requirements.

In addition to the principle of determination of the profit to be distributed in accordance with the decision to be taken at the General Assembly; distribution of the entire distributable profit to the shareholders as cash issue has been adopted as principle.

Teknosa does not distribute advance dividends.

Dividends shall be distributed equally to all of the current shares regardless of their dates of issue and/or acquisition at the shortest time, after being approved by the General Assembly, and at the date determined by the General Assembly.

The General Assembly may decide to transfer a portion or the whole amount of the net profit to excess reserves. If the Board of Directors advices the General Assembly not to distribute the profit, the reasoning behind this situation and the planned use of the undistributed profit is explained to the shareholders during the General Assembly. Likewise, the same information is also shared with the public in the Annual Report and at Teknosa's website.

The Dividend Distribution Policy is submitted to the approval of the shareholders during the General Assembly. The Dividend Policy is reviewed by the Board of Directors each year, taking into consideration whether there are negative factors in the local and global state of the economy, the projects undertaken by Teknosa and the current state of the funds. Any changes made in this policy is submitted to the approval of the shareholders at the first General Assembly to be held following the decisions are made and shared with the public at the Company's website.

Upon the voting of the proposed motion at the Teknosa's Ordinary General Assembly Meeting held on March 27, 2018, it was decided by majority vote to not distribute any profits due to the offsetting of previous periods' losses with the term profit for the 2017 accounting year as per CMB's regulations on profit distribution, since 19,568,000 TL of "Profit for the Period" was accrued in the Company's financial statements for the accounting period from 01.01.2017 to 31.12.2017, prepared in accordance with the CMB's Communiqué Series: II No. 14.1 on "Principles Regarding Financial Reporting in Capital Markets," and audited by KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., and 73,845.04 TL of " Loss for the Period" was accrued as per the provisions of the Tax Procedure Law. According to Teknosa's Articles of Association, there are no privileges in dividend distribution.

The profit distribution policy and annual profit distribution proposal are available in the Annual Report, are submitted for the information of the shareholders at the General Assembly and are publicly disclosed via Investor Relations website.

2.6. Transfer of Shares

The Company's Articles of Association does not contain any provisions that restrict the transfer of shares.

Section III - Public Disclosure and Transparency

3.1 Corporate Website and Its Content

Teknosa's corporate website address is www.teknosa.com. Investor Relations pages in Turkish and English are available at the URL of http://yatirimci.teknosa.com. The Company's Investor Relations website is reviewed and revised within the framework of the topic 2.1 Corporate Website Contents that is specified in the annex Corporate Governance Principles to be taken as basis of the CMB Corporate Governance Communiqué (II.17.1). Within this scope, it is ensured that the information and documents stipulated in the legislation are accessible. The efforts continue to provide the English versions of the information specified in Turkish on the website.

The corporate website includes the following content:

- Detailed information on corporate identity
- Vision and mission
- Information on the Members of the Board of Directors and Executive Committee
- Shareholder structure
- CMB Material Event Disclosures
- Articles of Association
- Financial Statements
- Independent Auditor Information
- Date and Agenda of the General Assembly, explanations about the agenda items
- Minutes of the General Assembly and the Attendance List
- Corporate Governance Practices and Compliance Report
- Dividend Distribution Policy
- Disclosure Policy
- Anti-Bribery and Anti-Corruption policy
- Frequently Asked Questions

3.2 Annual Report

Teknosa's Annual Report is prepared and publicly disclosed within the framework of; the provisions of the Regulation on the Determination of the Minimum Content of the Companies' Annual Reports published in the Official Gazette n. 28395, dated 28.08.2012, the periods stipulated in the Communiqué (II- 14.1) on the Principles Regarding Financial Reporting in the Capital Markets and the Corporate Governance Principles.

Annual Reports are presented to the approval of the Board of Directors and are publicly disclosed together with the financial statements unless the Board of Directors takes a decision with a separate statement of responsibility to announce them after the financial statements' announcement. Annual Reports are available on the Teknosa's website.

Section IV - Stakeholders

4.1 Informing the Stakeholders
Regarding the issue of informing the stakeholders, Teknosa takes as a basis the Information Policy published in the Public Disclosure Platform (KAP) on the 26th of December 2014.

Stakeholders are informed on Company-related developments through public disclosures as per relevant regulations. Public disclosure is made through press conferences as well as statements on the media. Furthermore, information shared during the General Assembly meetings and on the Company's website, the comprehensive activity report, press statements and transparent information policies ensure that both shareholders and stakeholders are kept well-informed. Additionally, company employees are informed via e-mails, training programs, seminars and meetings on issues that cover their fields of expertise or general areas of interest. There is also a portal available for the employees and they can access any information or document of interest to them via this portal.

In order to protect the rights of stakeholders, the Company embraces ethical principles, and has established an ethics committee. Stakeholders can reach the ethics committee at etik@sabanci.com, and etik@teknosa.com e-mail addresses, or at +90 (212) 385 85 85 telephone number. The Audit Committee and/or the Corporate Governance Principles Committee are informed if and when required.

4.2. Stakeholder Participation in Management
Employees' participation in management is ensured by organizing regular company meetings (at least twice a year), as well as at the annual goal-setting and performance evaluation meetings. Additionally, employees can give their feedback to the management and to their colleagues through the 360^0 feedback mechanism. The results are reviewed at various management meetings, and action plans are made in order to implement the necessary changes. With these practices, employees can participate in and contribute to achieving a more effective management at the Company. Communication channels are always kept open for other stakeholders (suppliers, business partners, etc.) as well.

4.3. Human Resources Policy
The goal of the Human Resources management at Teknosa is to develop and implement human resources strategies that create value and help achieve the Company's vision and business outputs. The human resources strategy at Teknosa is to implement a world class human resources management and make Teknosa an exemplary company where everyone wants to or is proud to work at.

In order to realize this strategy, the Human Resources Department of the Company strives to create a management team that
- acts in a very selective manner in recruitment and promotion decisions;
- motivates employees towards exciting goals;
- ensures that employees' commitment to the organization is sustainable;
- takes necessary actions to elevate employee satisfaction;
- manages employees according to high performance standards;
- holds the management and the employees responsible for business results;
- gives the employees the opportunity to realize their potentials and use their talents;
- rewards superior performance.

As a subsidiary of Sabancı Holding, Teknosa aims to become a company that is
- Reliable,
- Responsive to others,
- Treating everyone equally,
- Committed to ethical values,
- Open to change,
- Market-oriented,
- Capable of long-term and strategic thinking,
- Innovative,
- A preferred workplace for individuals who are open to collaboration.

As part of its Human Resources policy, the Company embraces the principle of equal opportunity for persons with equal qualifications. Thus, the Company treats all employees fairly, and does not discriminate them due to their religion, language, race or gender and takes all necessary measures to protect employees against bad treatment. Within this scope, no complaint was raised by the employees on the issue of discrimination in 2018.

Through its Human Resources policies, the Company strives to add qualified employees to its workforce, to invest in its employees by helping them develop themselves further and realize their potentials, to offer continuous training, to further improve and strengthen the overall organization, to implement compensation and rewarding programs that increase employee motivation and loyalty, and thus to become a distinguished company.

Employees are made aware of job descriptions and distributions, as well as performance and rewarding criteria. The Company considers efficiency as an important factor in determining employee compensation and other benefits. In Teknosa, human resources processes are conducted by the Human Resources Manager, Ebru Anıldı and recruitment and internship processes as well as performance and career management principles and the training and development requirements within the scope of the career development and back-up systems were determined through Teknosa Academy. These issues were shared both with the employees and public under the Human Resources section of the Company's corporate website.

Teknosa respects to and acts in compliance with the legal rules. The Company pays necessary attention to protect all the rights and to pay all the receivables of the employees within the period starting with their labor agreement and ending with the expiration of the agreement.

4.4. Ethical Rules and Social Responsibility

The Company has already established rules of business ethics, and started to implement them. The employees are informed about these rules through the company portal, booklets which are distributed to all employees, and training programs. Additionally, all employees update their knowledge about the rules of business ethics through an e-learning program at the end of each year, and fill out a "Business Ethics Compliance" form to declare their commitment to business ethics.

Focusing on the concepts of "sustainability" and "creating social value," the Company carries out social responsibility projects mainly in the areas of education, culture & art and environment. The Company provides women across Turkey with free-of-charge technology training as part of the Technology for Women Social Responsibility Project that has been ongoing since 2017. To ensure employees are incorporated into social responsibility activities within the framework of human resources processes, the Teknosa Volunteers Club continues to carry out and support joint activities with civil society organizations on special days. Adhering to its responsibilities as the leader of its sector, Teknosa acts as a pioneer by committing itself to educational activities in order to raise young people's consciousness about technology and the environment. Accordingly, Teknosa sets an example in the sector with its environmental practices such electronic waste collection, introduction of eco-friendly bags, and energy efficiency efforts.

Section V - Board of Directors

5.1 Board of Directors' Structure and Formation

The provisions stipulated in the Company's Articles of Association are considered for the procedures and principles such as Teknosa Board of Directors' structure, duties, management rights and powers of representation.

Teknosa is governed and represented by a Board of Directors that is composed of at least six members who are elected by the General Assembly within the framework of the provisions of the Turkish Code of Commerce and the Capital Markets Legislation. There are six members at the Teknosa Board of Directors in conformity with the Article n.4.3.1 of the Communiqué and there are two independent members in conformity with the exception stipulated in the first paragraph of the 6th Article of the Communiqué.

Minimum qualifications of the Members of the Board of Directors are not specified in the Articles of Association. However, the required qualifications of the Members of the Company's Board of Directors are in line with the relevant articles of CMB Corporate Governance Principles. Two members of the Board of Directors are independent members who are determined according to the Capital Markets Board's regulations on Corporate Governance and Corporate Governance Principles. Independence Statements of the Independent Members of the Board of Directors are available. Within the related activity period, there are no issues that terminate the independence.

Term of office of Board Members may not exceed three years, after which they can be re-elected. In the event that a Board Member position becomes vacant, the Board elects a new member to fill the position and presents the elected member for approval at the next General Meeting. The newly elected member completes the term of his/her predecessor.

On the basis of General Meeting's resolution, Board members are authorized to perform transactions within the scope of the Articles 395 and 396 of the Turkish Commercial Code.

The information about Teknosa Board of Directors' Members – whose terms of office started in March 2018 – is summarized in the below chart while their résumés are available on the Company website and in the related section of the Annual Report:

Board of Directors

Name-Surname	Position	Term of Office	Duties outside the Company
Seyfettin Ata Köseoğlu	Chairman of the Board of Directors (Executive)	March 27, 2018-March 2021	H.Ö. Sabancı Holding President of Retail Group, Carrefoursa Chairman of Board of Directors
Hakan Timur*	Vice Chairman of the Board of Directors (Executive)	May 2, 2018-March 2021	H.Ö. Sabancı Holding Group Chief HR and Corporate Competencies Officer, Member on the Boards of Kordsa Global, Çimsa Çimento Sanayi ve Ticaret A.Ş., Avivasa Emeklilik ve Hayat A.Ş., Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş. and Sabancı DX
Levent Demirağ	Board Member	March 27, 2018-March 2021	Head of Financial Affairs and Investor Relations at H.Ö. Sabancı Holding
Uğur Gülen	Board Member	March 27, 2018-March 2021	Aksigorta A.Ş. General Manager, Aksigorta A.Ş. Board Member
Mehmet Kahya	Independent Member of the Board of Directors	March 27, 2018-March 2021	Independent Member on the Boards on Brisa Bridgestone Sabancı Lastik San. ve Tic. A.Ş. and Yünsa Yünlü San. ve Tic A.Ş.; Independent Member on the Board of Directors (BOD) of PT Indo Kordsa Tbk Indonesia
Mehmet Tanju Ula**	Independent Member of the Board of Directors	September 11, 2018-March 2021	Independent Member on the Boards of Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş., Çimsa Çimento Sanayi ve Ticaret A.Ş.; Member on the Boards of Electrosalus Biyomedikal San. and Tic. A.Ş.; Shareholder Advisor of Enerjeo Gediz Enerji Üretim A.Ş. and Enerjeo Kemaliye Enerji Üretim A.Ş.

** Onur Özkan, who resigned from his position as the Vice Chairman and Member of the Board of Directors on April 20, 2018, was replaced by Hakan Timur on May 2, 2018. Hakan Timur will continue to work until the end of his predecessor's term and his appointment will be subject to subsequent approval by the next General Assembly as per Article 363 of the Turkish Commercial Code.*

*** Burak Aydın, who resigned from his position as Member of the Board of Directors on August 6, 2018 was replaced by Mehmet Tanju Ula on September 11, 2018. Mr. Ula will continue working in this capacity until the end of his predecessor's term and his appointment will be subject to subsequent approval by the next General Assembly as per Article 363 of the Turkish Commercial Code.*

5.2. Operating Principles of the Board of Directors

The Board of Directors convenes as frequently as required to efficiently fulfill its duties. The Board operates in a transparent, accountable, fair and responsible manner, and while doing so it always looks out for Teknosa's long-term interests.

Every year, the members of the Board of Directors select a chairman and a vice chairman who will be the acting chairman in the absence of the chairman for presiding the meetings. The Chairman of the Board of Directors determines the agenda of the Board of Directors' meetings by getting the opinions of the other members and the general manager. The agenda items of the Board of Directors' meetings are discussed explicitly and in every aspect. The Chairman of the Board of Directors is obligated to show the best effort for ensuring effective participation of the non-executive members in the meetings.

Meeting dates and agenda are determined by the chairman or vice chairman.

The Board of Directors convenes as necessitated by the company affairs upon the chairman's or vice chairman's call for the meeting. The meeting date may be determined with the decision of the Board of Directors as well. In case the chairman or the vice chairman does not call the Board of Directors for the meeting upon the request of one of the members, then the members will have the right to make a call for the meeting ex-officio.

The Board of Directors must convene at least four (4) times a year.

The meetings of the Board of Directors can be held at the Company headquarters or at another location within or outside the borders of the country that is deemed appropriate by the Board. Unless one of the members makes a request for a meeting that will be held physically, the decision of the Board of Directors can be taken by means of getting the written approvals of the other members for another member's proposal regarding a certain issue.

Meeting and decision quorums of the Board of Directors are subject to the provisions of the Turkish Code of Commerce.

The Board of Directors of the Company held four meetings between 01.01.2018 and 31.12.2018.

At the Board meetings each member has one vote, and unanimous consent is sought while resolving matters, and the Board always complies with Corporate Governance Principles. All Board Members, excluding those who were excused, attended all the Board meetings. Since Board Members didn't have any questions regarding these matters, they are not recorded in the minutes. No opposite opinions were put forward against the resolutions reached by the Board Members at the Board meetings held in 2018.

In 2018, Board Members neither engaged in any business with the Company nor attempted to go into any business that would fall within the Company's scope of operations.

5.3 Number, Structure and Independence of the Committees Established Within the Structure of the Board of Directors

According to Teknosa Articles of Association, the Board of Directors establishes a sufficient number of Committees ("Committee") in order to fulfill the tasks and responsibilities in a healthy manner. The "Nomination Committee" and the "Remuneration Committee" liabilities stipulated in the 4.5.1 Article of the Communiqué are undertaken by the "Corporate Governance Committee." Moreover, although the Company pays special attention to comply with the provision of the 4.5.5 Article of the Communique on "Members of the Board of Directors cannot assume duties in more than one Committee," since the Committee membership requires professional expertise, members of the Board of Directors can be a member in more than one Committee.

Corporate Governance Committee

Corporate Governance Committee aims to maintain the continuity of the management process based on ethical values of Teknosa İç and Dış Tic. A.Ş., having internal and external responsibilities, risk awareness and that is transparent and responsible in its decisions, that oversees the benefits of the stakeholders and that has a sustainable success target.

The duty of this Committee is to make suggestions and recommendations to the Board with regard to establishing the Corporate Governance Principles in line with CMB's or other internationally recognized Corporate Governance Principles.

Corporate Governance Committee, including the President, is composed of maximum three Members, and two Reporters appointed by the Teknosa Board of Directors in line with the CMB's "Corporate Governance Principles." The President of the Corporate Governance Committee is appointed from among the independent members by the Teknosa Board of Directors.

Should the position of President become vacant, the Chairman of the Board assigns one of the committee members as temporary President until the new President is appointed at the next Board meeting.

The Corporate Governance Committee ensures the implementation of the Corporate Governance Principles in the Company, and in case these principles are not implemented then the Committee makes suggestions to the Board of Directors for improvement. The Committee oversees the activities of the Investor Relations Department. Besides the Board of Directors' and Executive Managers' performance and remuneration principles and assessments, the Committee submits the independent candidate member proposals – by evaluating the independence criteria of the candidates –, including the candidates nominated by the management and the shareholders, to the Board of Directors. In accordance with the legislation, the Candidate Independent Members of the Board of Directors present their independence statements in writing to the Corporate Governance Committee at the time they are nominated.

The Corporate Governance Committee convenes 4 times a year. It convened 4 times in 2018.

With Teknosa Board of Directors' decision, the Corporate Governance Committee members were determined as follows;

Name-Surname	Position	Nature of the Board of Directors Membership/Position
Mehmet Tanju Ula	Chairman of the Corporate Governance Committee	Independent Board Member
Mehmet Kahya	Corporate Governance Committee Member	Independent Board Member
Ümit Kocagil	Corporate Governance Committee Member	Assistant General Manager-Finance at Teknosa

Early Detection of Risk Committee

The Early Detection of Risk Committee was established to be responsible and authorized referring to the Teknosa İç and Dış Ticaret A.Ş. Board of Directors' resolution and in accordance with the Article 6102 of the Turkish Code of Commerce n.6102 and the provisions of the Capital Markets Board's Communiqué on the Corporate Governance Principles.

The Committee performs activities with the aim of early detection of any risks such as strategic, operational, financial, compliance etc. that may jeopardize the existence, development and continuity of Teknosa, taking necessary measures together with finding solutions and managing the risk.

The Committee members are elected by the Company's Board of Directors and are disclosed to the public. The President of the Committee is appointed from among the independent members by the Board of Directors.

The Committee members are preferably elected from among the non-executive Members of the Board of Directors.

Meetings are held at least six times a year, at a location deemed appropriate by the Chairman. The Early Detection of Risk Committee convened 6 times in 2018.

The annual meeting calendar is determined by the Chairman the Committee and announced to all committee members at the beginning of each year. The term of office of the Committee members are in parallel to the term of office of the Members of the Company's Board of Directors. The Committee is re-established upon the election of the Members of the Board of Directors.

With Teknosa Board of Directors' decision, the Early Detection of Risk Committee members were determined as follows;

Name-Surname	Position	Nature of the Board of Directors Membership/Position
Mehmet Kahya	Chairman of the Early Detection of Risk Committee	Independent Board Member
Mehmet Tanju Ula	Early Detection of Risk Committee Member	Independent Board Member

Audit Committee

The duty of the Audit Committee is to oversee the Company's accounting system, financial reporting, announcement of financial statements to the public, progress and effectiveness of independent audit and internal control system, on behalf of the Company's Board of Directors.

The Audit Committee reports its activities, evaluations and suggestions to the Board of Directors in writing.

The Chairman and the members of the Audit Committee are appointed by the Board of Directors from among Independent Members.

With Teknosa Board of Directors' decision, the Audit Committee members were determined as follows;

Name-Surname	Position	Nature of the Board of Directors Membership/Position
Mehmet Kahya	Chairman of the Audit Committee	Independent Board Member
Mehmet Tanju Ula	Audit Committee Member	Independent Board Member

The Audit Committee held 4 meetings in 2018 and the main agenda items were the review of the independent audit report and examination of the presentations of the Internal Audit Department.

5.4. Risk Management and Internal Control

Teknosa embraces the notion that every risk brings an opportunity, and recognizes that "sustainable growth" can be achieved by effectively identifying, measuring, and managing risks. The Company attaches great importance on risk management in order to "create value for its stakeholders," which is a crucial part of its mission.

The Risk Management Policy at Teknosa serves to define, assess, prioritize, monitor, and report the potential risks involved in Teknosa's operations, and also to lay out the procedures and principles which will be adhered to during the process of defining and implementing the necessary measures and strategies against such risks.

Risk management is conducted by the Early Detection of Risk Committee ("Committee") on behalf of the Board of Directors. The responsibilities of the Committee are given below:

- To establish a systematic "Risk Management Culture," and to integrate it into the corporate culture,
- To ensure that risks are effectively identified and managed,
- To provide that appropriate threshold values are identified for effective risk management, and the required infrastructure is set up,
- To ensure that investment decisions are made in accordance with Teknosa's and Sabancı Holding's strategic business goals, and predefined "Risk-Taking Limits,"
- To ensure that Corporate Risk Management (CRM) system becomes a proactive process as an integral part of the corporate culture and a crucial part of Teknosa's processes.

The Company has an Internal Control Mechanism in place. With the formation of the Audit Committee, it effectively carries out the duties assigned by the Board of Directors in compliance with the existing bylaws of the Audit Committee.

5.5. The Company's Strategic Goals

The Company's Board of Directors has determined the vision and the mission of the Company, and these are included in the Annual Report, and announced to the public on the Company's website, www.teknosa.com. Company's long term strategies are structured on these principles.

The Board of Directors sets the three-year strategic targets after discussing the issue with the General Assembly and updates every year. Whether the Company achieves its targets or not is monitored via monthly prepared manager reports. Year-end performance assessments are based on whether the Company achieves its targets or not.

5.6. Remuneration of the Board of Directors

Any remuneration, rights and benefits granted to the Company's Board Members are detailed in the Articles of Association. Remuneration Policy of the Company is available on the website. The attendance fees paid to the Chairman and the Board Members are determined at the General Assembly Meeting. The salaries paid to executive managers are announced to the public in the footnotes to the financial statements.

Remuneration of Independent Board Members is not made by stock options or performance-based payment methods.

In 2018, the Company did not lend any money or give out any loans to Board Members; did not extend the due date or improve the terms and conditions of existing debts or loans; did not grant any individual loans via third persons, or did not offer surety guarantees.

Profit Distribution Table

TEKNOSA İÇ VE DIŞ TİCARET A.Ş. 2018 DIVIDEND DISTRIBUTION POLICY (TL)			
PAID-IN/ISSUED CAPITAL			110,000,000.00
Secondary Ordinary Legal Reserves (as per Statutory Books)			8,704.007.41
Information regarding privileges in dividend distribution, if there is any as per the articles of association			N/A
		As per the CMB	As per Statutory Books (SBs)
3.	Profit for the Period	-64,609,000.00	-65,818,150.86
4.	Taxes (-)	0.00	0
5.	Net Profit for the Period (=)	-64,609,000.00	-65,818,150.86
6.	Losses from Previous Years (-)	-252,683,332.79	-274,187,847.55
7.	Ordinary Legal Reserves (-)	0.00	0.00
8.	NET DISTRIBUTABLE PROFIT FOR THE PERIOD (=)	0.00	0.00
9.	Donations Made within the Year (+)	24,843.24	
10.	Net Distributable Profit for the Period incl. Donations	0	
11.	Primary Dividends for Shareholders	0	
	- Cash	0	
	- Non-Paid Up	0	
	- Total	0	
12.	Dividends Distributed to Preferred Shareholders	0	
13.	Other Dividends Distributed	0	
	- To Board Members,	0	
	- To Employees,	0	
	- To Persons other than Shareholders,	0	
14.	Dividends Distributed to Holders of Redeemed Shares	0	
15.	Secondary Dividends for Shareholders	0	
16.	Ordinary Legal Reserves	0	
17.	Statutory Reserves	0	
18.	Special Reserves	0	
19.	EXTRAORDINARY RESERVES	0	0
20.	Other Resources Planned for Distribution	0	0
	- Retained Earnings		
	- Extraordinary Reserves		
	- Other Distributable Reserves as per Law and Articles of Association		

DIVIDEND RATIOS TABLE	TOTAL DIVIDENDS DISTRIBUTED		TOTAL DIVIDENDS DISTRIBUTED/NET DISTRIBUTABLE PROFIT FOR THE PERIOD	DIVIDENDS FALLING TO SHARES WITH A NOMINAL VALUE OF TL 1	
	CASH (TL)	NON-PAID UP (TL)	RATE (%)	AMOUNT (TL)	RATE (%)
GROSS	0.00	0.00	0.00	0.00	0.00
NET	0.00	0.00	0.00	0.00	0.00

A “Loss for the Period” of 64,609,000.00 TL was accrued as per our consolidated financial statements for the accounting period from 01.01.2018 to 31.12.2018, prepared in accordance with the CMB’s Communiqué Series: II No:14.1 on “Principles Regarding Financial Reporting in Capital Markets” and audited by KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., whereas a Loss for the Period of 65,818,150.86 TL was accrued as per the provisions of Tax Procedure Law. It was decided by majority vote to inform the shareholders, and to present this matter to the General Assembly for approval, that no profit distribution be made for the accounting period 2018 as per CMB’s regulations on profit distribution.

Independent Auditor's Report Regarding the Annual Report

INDEPENDENT AUDITOR'S REPORT REGARDING THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

To the General Assembly of Teknosa İç ve Dış Ticaret Anonim Şirketi

Opinion

We have audited the full set of financial statements and the annual report of Teknosa İç ve Dış Ticaret Anonim Şirketi ("The Company"), for the accounting period from 1 January 2018 to 31 December 2018.

In our opinion, the financial information included in the annual report and the Board of Directors' analyses about the position of the Company based on the information in the audited financial statements are consistent, in all material respects, with the audited complete set of financial statements and information obtained during the independent audit, and provides a fair presentation.

Basis for Opinion

We conducted our independent audit in accordance with the standards on independent audit issued by the Capital Markets Board ("CMB"), and with the Standards on Independent Audit ("SIA"), which is a component of the Turkish Auditing Standards ("TAS") issued by the Public Oversight, Accounting and Auditing Standards Authority ("POA"). Our responsibilities under those Standards are further described in the Independent Auditor's Responsibilities Regarding the Independent Audit of the Annual Report section of our report. We declare that we are independent of the Company in accordance with the Code of Ethics for Independent Auditors issued by POA ("Code of Ethics") and the ethical requirements in relevant regulations that are relevant to independent audit. We have fulfilled our other ethical responsibilities in accordance with the POA's Code of Ethics and regulations. We believe that the independent audit evidence we have obtained during independent audit is sufficient and appropriate to provide a basis for our opinion.

Auditor's Opinion on the Full Set of Financial Statements

We have expressed an unqualified opinion in the auditor's report dated February 18, 2019, on the full set of financial statements of the Company for the period 1 January 2018 to 31 December 2018.

Board of Directors' Responsibility for the Annual Report

In accordance with the Articles 514 and 516 of the Turkish Commercial Code Numbered. 6102 ("TCC") and Regulation on the Principles and Procedures Concerning the Preparation of and Publishing Annual Reports by the Company ("Regulation") published in the Official Gazette dated 1 November 2006 and No. 26333, the Company's management is responsible for the following regarding the annual report:

a) The Company's management prepares its annual report within the first three months following the balance sheet date and submits it to the general meeting.
b) The Company's management prepares its annual report in such a way that it presents accurately, completely, directly, truly and fairly the flow of annual operations and financial position of the Company. In this report, the financial position of the Company is assessed in accordance with the Company's financial statements. The annual report shall also clearly state the details about the Company's development and risks that might be encountered. The assessment of the board of directors on these matters is included in the report.
c) The annual report also includes:
- Significant events which occurred after the reporting period,
- The Company's research and development activities.
- Material benefits such as wages, premiums and bonuses paid to board members and key management personnel, appropriations, travel, accommodation and representation expenses, cash and in-kind facilities, insurance and similar guarantees.

When preparing the annual report, the board of directors also considers the related regulations issued by the Ministry of Trade and related institutions.

Independent Auditor's Responsibility for the Independent Audit of the Annual Report

Our objective is to express an opinion on whether the financial information included in the annual report and the Board of Directors' analyses in relation to the position of the Company based on the information available in the audited financial statements are consistent with the audited financial statements of the Company and the information obtained during the independent audit and give a true and fair view and form a report that include this opinion in accordance with the provisions of TCC and the Communique.

We conducted our independent audit in accordance with Standards on Independent Audit issued by POA and SIA. Those standards are required for compliance with ethical requirements and the planning of the independent audit to obtain reasonable assurance on whether the financial information included in the annual report and the Board of Directors' analyses for the position of the Company based on the information available in the audited financial statements are consistent with the financial statements and the information obtained during the audit and provides a fair representation.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of KPMG International Cooperative

Ruşen Fikret Selamet, SMMM
Partner
18 February 2019
İstanbul, Turkey

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

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of TeknoSA İç ve Dış Ticaret Anonim Şirketi

A) Audit of the Financial Statements

Opinion

We have audited the financial statements of TeknoSA İç ve Dış Ticaret Anonim Şirketi ("the Company"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards ("TFRS").

Basis for Opinion

We conducted our audit in accordance with standards on auditing issued by Capital Markets Board of Turkey ("CMB") and Standards on Auditing which is a component of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA") ("Standards on Auditing issued by POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We declare that we are independent of the Company in accordance with the Code of Ethics for Auditors issued by POA ("POA's Code of Ethics") and the ethical requirements in the regulations issued by POA that are relevant to audit of financial statements, and we have fulfilled our other ethical responsibilities in accordance with the POA's Code of Ethics and regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG

Revenue recognition and the initial application of TFRS 15

Refer to Note 2.2.1 and Note 2.5 to the financial statements for summary of significant accounting policies and significant accounting assessments, estimates and assumptions for revenue recognition and the impact of TFRS 15.

The key audit matter	How the matter was addressed in our audit
The Company's revenue is primarily generated from retail sales of consumer electronics through its stores and website and air conditioners and white goods through its dealers. Besides, the Company also generates revenue from its suppliers such as turnover premium and similar income items. The accuracy of retail sales revenue recognized in the financial statements is an inherent industry risk because there is processing of large volumes of data. Accounting for revenue from retail sales revenue has been identified as one of the key audit matters, as the accuracy of revenue recorded by information technology ("IT") billing systems involves a natural control risk due to the complexity of these systems and the size of the volume of data processed by these systems. The Company's income generated from its suppliers are based on the trade agreements with suppliers and the contents of these agreements consist of commitments to purchase amounts, promotions and marketing activities, and various types of discounts. These commitments can vary depending on the turnover and for the sum of purchases made during that period or for certain products within those purchases as of periods.	We have performed the following audit procedures to be responsive to retail sales revenue: - Assessing the appropriateness of the revenue recognition policy of the Company; - Assessing, with the assistance of our internal IT specialists, the design, implementation and operating effectiveness of the below controls; • key internal controls over the general IT environment in which the business systems operate, including access to program controls, program change controls, program development controls and computer operation controls; and • internal IT controls over the completeness and accuracy of pricing and billing process and the end-to-end reconciliation controls from pricing and billing process to the accounting system. - Testing the integration of IT infrastructure of cashier system and accounting system - Testing the end-to-end reconciliations from data records to the billing systems and to the general ledger - Substantive testing on a sample of non-systematic adjustments which are outside of the normal billing process and therefore carry higher levels of management judgment.

The key audit matter

Turnover premiums on purchases are recorded as a deduction from cost of sales and are recognized during the contractual agreement with the individual supplier. Turnover premiums on purchases due to ordinary activities are offset against the costs of such inventories and are associated with the cost of goods sold.

As of reporting date, turnover premiums are accounted in accordance with the transactions that the Company has agreed with the suppliers.

The Company has started to apply TFRS 15 "Revenue from Customer Contracts" as of 1 January 2018. The Company has applied the exemption provided by TFRS 15 Revenue from Contracts with Customers not to restate the comparative periods as a result of the TFRS 15 adoption.

TFRS 15 determines timing and amount of revenue recognition. It requires significant management estimation and judgment, since the standard has a comprehensive framework for the terms of transfer of control over products and services based on the timing of the performance of the seller's obligations. Therefore, the first application of revenue recognition in accordance with TFRS 15 has been a focus area for our audit and has been identified as one of the key audit matters.

How the matter was addressed in our audit

- Testing, on a sample basis, sales returns accepted subsequent to the year end in order to assess whether the sales returns are properly accounted for in the appropriate financial period.

We have performed the following audit procedures to be responsive to revenue generated from suppliers:

- Review of correspondence with suppliers and end-to-end reconciliation checks between the internal IT controls and pricing and billing systems and accounting systems in relation to the completeness and accuracy of pricing and billing for purchases to ensure that turnover premiums income received from suppliers are accounted for in accordance with the terms of the relevant contracts in the correct period and in the correct amount
- Controlling the realization of turnover premiums income (completion of invoice procedures) recognized as accruals in the following period
- Testing of current accounts of suppliers in which significant portion of turnover premiums income is obtained, by means of external confirmation
- Assessment of manual journal entries that the Company has accounted for during the year.

Regarding the initial application of TFRS 15:

- obtaining an understanding of the Group's new accounting policies, evaluate their appropriateness and document the results,
- assessing the appropriateness of the methods used to determine the impact of the initial application of TFRS 15,
- assessing the Group's disclosures in the consolidated financial statements to satisfy the new disclosure requirements.

KPMG

Valuation of deferred tax assets

Refer to Note 2.6 and Note 24 to the financial statements for summary of significant accounting policies and significant accounting estimates for valuation of deferred tax assets.

The key audit matter	How the matter was addressed in our audit
As of 31 December 2018, the Company has reversed its deferred tax assets calculated over the previous year tax losses amounting to TL 24,065 related to 2015 and TL 62.116 related to 2016 due to the fact that it is evaluated as not recoverable in the future. In conclusion, the Company has recognized expense amounting to TL 17.237 as of and for the year ended 31 December 2018 in its statements of profit or loss. Additionally, the Company has recognized deferred tax assets for deductible temporary differences and unused tax losses that it believes are recoverable. The recoverability of recognized deferred tax assets is dependent on the Company's ability to generate future taxable profits sufficient to utilize deductible temporary differences and tax losses (before latter expire). We have determined this to be a key audit matter, due to the inherent uncertainty in forecasting the amount and timing of future taxable profits and the reversal of temporary differences. Significant judgment is required in relation to the recognition and recoverability of deferred tax assets.	We have performed the following audit procedures to be responsive to this area: - Assessing and challenging the assumptions and judgments exercised by management in respect of the forecasts of future taxable profits by analyzing the assumptions adopted by management; - Reconciliation of the estimates and assumptions used in the future business plans which has been approved by the Board of Directors; - Considering the historical accuracy of forecasts of future taxable profits made by management by comparing the actual taxable profits for the current year with management's estimates in the forecasts made in the previous year and assessing whether there were any indicators of management bias in the selection of key assumptions; - Considering the impact of recent regulatory developments, where applicable and relevant; - Reconciling tax losses and expiry dates to tax statements; and - Evaluation of the adequacy of disclosures which is included in the financial statements for the application of the judgments used in the estimation of deferred tax assets that are recognized or not recognized in the financial statements of the Company, whether properly reflects the deferred tax position in accordance with TFRSs.

KPMG

Financial position – Identification of whether the company's capital is unrequited or not, or whether the capital is running into debt

Refer to Note 2.6 and Note 28 to the financial statements for significant accounting assessments for the determination of adequacy of financial position.

The key audit matter	How the matter was addressed in our audit
The Company has certain obligations which has key determinants in relation to going concern regulated by the Turkish Commercial Code ("TCC") numbered 6102. We have identified that the most important assumption used in assessing the going concern of the Company - as the main determinant of the equity position evaluating the Company's brand by taking the brand appraisal report and expected future profitability. The calculations in order to determine the fair value of the trademark and the calculations supporting the future profitability assessment made by the Company management are based on the estimations of the management's future performance and significant judgements. We identified this issue as a key audit matter because of the significant judgment required in determining the assumptions and estimates used in the calculations.	Our audit procedures to assess financial position included the following: - Evaluation of the significant estimates and assumptions a review of valuation methodology used in the brand appraisal report as included in the special purpose financial statements prepared in accordance with TCC 376 in compliance with CMB decision dated 10 April 2014 and numbered 11/352. - Performing sensitivity analysis, with the assistance of our corporate finance specialists, over the trademark value determined at the brand appraisal report by taking current cash projections of the Company and current economic parameters into consideration. - Evaluation of the significant estimates and assumptions and review of valuation methodology used in the brand appraisal report as included in the special purpose financial statements prepared in accordance with TCC 376 in compliance with CMB decision dated 10 April 2014 and numbered 11/352. - Assessment of the assumptions used by the Company management in estimating future performance and whether the accounting principles used in the preparation of the related special purpose financial statement are appropriate.

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

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

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

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

KPMG

Auditor's Responsibilities for the Audit of the Financial Statements

Responsibilities of auditors in an audit are as follows:

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

As part of an audit in accordance with the standards on auditing issued by the CMB and Standards on Auditing issued by POA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

B) Other Legal and Regulatory Requirements

1) Pursuant to the fourth paragraph of Article 398 of Turkish Commercial Code ("TCC") numbered 6102; the Independent Auditor's Report on System and Committee of Early Identification of Risks is presented to the Board of Directors of the Company on 18 February 2019.

2) Pursuant to the fourth paragraph of Article 402 of the TCC; no significant matter has come to our attention that causes us to believe that for the period between 1 January 2018 and 31 December 2018, the Company's bookkeeping activities and financial statements are not in compliance with TCC and provisions of the Company's articles of association in relation to financial reporting.

3) Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of KPMG International Cooperative

Ruşen Fikret Selamet, SMMM
Partner
18 February 2019
İstanbul, Turkey

TEKNOSA İÇ VE DIŞ TİCARET ANONİM ŞİRKETİ
NOTES TO THE FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018
(Amounts expressed in thousands of TL unless otherwise indicated.)

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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.)

		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**

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

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

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**

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

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 IFRS 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.

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

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.

TEKNOSA İÇ VE DIŞ TİCARET ANONİM ŞİRKETİ

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	Current period Audited 1 January – 31 December 2018	Prior period Audited 1 January – 31 December 2017
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) for the period		**(64.609)**	**19.568**
Adjustments:			
Adjustments for financial 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/(reversal of) impairment of receivables	7	(2.776)	1.448
Adjustments for/(reversal of) 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/(increase) in trade receviables from related parties	4	846	(909)
Decrease/(increase) in inventories	9	(74.181)	(66.358)
Decrease in other assets related to operating activities		389	7.235
Increase/(decrease) in trade payables to third parties	7	100.756	(36.474)
Increase/(decrease) in trade payables to related parties	4,7	1.442	(905)
Increase/(decrease) in other liabilities related to operating activities		(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 from 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)
Proceeds from borrowings	6	8.500	--
Cash used in 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**

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

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 at Public Disclosure Platform (“KAP”) 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 to Turkish Financial Reporting Standards (“TFRS”)

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

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.

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

2.1 Basis of presentation (Contiuned)

(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.

(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. Except as otherwise indicated, financial information presented in TL has been rounded to the nearest thousand.

(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.

The reclassification which are explained above does not have impact on profit or loss as of and for the year ended 31 December 2017. During the preparation of the statements of cash flows, reclassifications which are explained above were taken into consideration.

2.2 Changes in accounting policies

Except for changes explained as below, 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.

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

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

2.2 Changes in accounting policies (Contiuned)

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, 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 revenue related to the Company's various goods and services.

Details of significant accounting policies and accounting methods related to the Company's various goods and services are explained in note 2.5

2.2.2. TFRS 9 Financial Instruments

The Company has initially adopted TFRS 9 Financial Instruments 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 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

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

2.2 Changes in accounting policies (Contiuned)

Presentation of impairment financial statements

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.

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*.

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

2.4 Changes in Turkish Financial Reporting Standards (Continued)

The Company is in the process of assessing the potential impact on its financial statements and financial performance resulting from the application of TFRS 16. However explanations related to preliminary analysis are presented as follows:

The Company plans to elect to use the exemptions applicable to the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value. Besides, the Company plans to adopt IFRS 16 using the simplified modified retrospective approach. In this context, the Company will recognise a right-of-use asset and a lease liability with respect to rent contracts of its stores, warehouses, transport vehicles and head office building. As disclosed in Note 16, present value of lease payments which will be realised in foreseable future according to the operational lease contracts will be calculated and their impacts will be recognized on financial statements. As a result of transition to TFRS 16, there will be an improvement in the Company's operating profit and an increase in finance costs. This is due to the fact that the leases that are accounted as operating leases according to TAS 17 in the previous periods are included in the statement of financial position.

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 does not expect that application of these amendments to TFRS 9 will have significant impact on its financial statements.

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.

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 (Continued)

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

The Conceptual Framework (revised)

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 TFRS by the POA, thus they do not constitute part of TFRS. 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 TFRS.

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.

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.

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

2.4 Changes in Turkish Financial Reporting Standards (Continued)

Improvements to IFRSs (Continued)

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 does not expect that application of these amendments to IFRS 3 will have significant impact on its financial statements.

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

2.5 Summary of Significant Accounting Policies

The financial statements for the period ended 31 December 2018 have been prepared in accordance with TFRSs. The accounting policies applied in preparation of the accompanying financial statements are as follows. These policies are applied consistently for the years presented, unless otherwise stated.

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.

(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)

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 reviewed at each reporting date and necessary adjustments are applied if necessary.

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 software	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.

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

2.5 Summary of Significant Accounting Policies (Continued)

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.

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.

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

2.5 Summary of Significant Accounting Policies (Continued)

Tax (Continued)

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.

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).

(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)

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

The effects of TFRS 15 on the accounting policies applied by the Company for the period ended 31 December 2017 ("the previous period") are disclosed in Note 2.2.1.

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 TFRS 15 when the contract is legally enforceable, the collection of the consideration is probable, the rights to goods and services and payment terms can be identified, the contract has commercial substance; and the contract is approved and the parties are committed to their obligations. If either contracts were negotiated as a single commercial package, or consideration in one contract depends on the other contract or goods or services (or some of the goods or services).

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 assesses how much consideration it expects to be entitled to by fulfilling the contract. In determining the transaction price, an entity considers variables considerations and significant financing components.

Significant financing component

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. The Company recognizes its sales by separating the financing component

Variable consideration

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.

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

2.5 Summary of Significant Accounting Policies (Continued)

Revenue recognition (Continued)

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
- 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.

Contract modifications

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. 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.

The revenue generated throughout sales to dealer network (İklimsa) is recognized as control of relevant products transferred to the dealers. In case of the control period does not occur at the same time, revenue is recognized as revenue in the following period. The Company's sales transaction to dealers generally occurs throughout transferring of controls to dealers in exchange for cash or secured cheques.

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

2.5 Summary of Significant Accounting Policies (Continued)

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.

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.

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.

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

2.5 Summary of Significant Accounting Policies (Continued)

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 TFRS 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.

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)

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

2.5 Summary of Significant Accounting Policies (Continued)

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.

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.

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 – 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 level 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;
- the purpose of the business model; manage daily liquidity needs, maintain a certain interest rate, or align the maturity of financial assets with the maturity of the debts that fund these 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 thatbusiness model) and how those risks are managed;
- the frequency, volume and timing of sales of

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.

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).

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

2.5 Summary of Significant Accounting Policies (Continued)

Financial Instrument (Continued)

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 – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018

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.

Financial assets – Policy applicable before 1 January 2018

Loans and Receivables

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.

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

2.5 Summary of Significant Accounting Policies (Continued)

Financial Instrument (Continued)

Loans and receivables (Continued)

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.

Any gain or loss on derecognition is recognized in profit or loss.

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.

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

2.5 Summary of Significant Accounting Policies (Continued)

Financial Instrument (Continued)

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.

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.

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)

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.

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.

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)

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.

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.

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

2.5 Summary of Significant Accounting Policies (Continued)

Financial Instrument (Continued)

b. Non-derivative financial assets - Policy applicable before 1 January 2018

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)

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

2.5 Summary of Significant Accounting Estimates

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.

As of 31 December 2018, the Company reassessed recoverability of deferred tax assets arising from previous year tax losses and decided to reverse deferred tax assets arising from tax losses from 2015 and some portion from 2016 in the current year which is amounting to TL 17.237.

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 clearance 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. The Company's total equity amount is determined as full TL (+) 253.915.266 in the aforementioned statement of financial position which has been prepared in accordance with the related article of TCC 376. 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**

	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**

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

NOTE 4 – RELATED PARTY DISCLOSURES (Continued)

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.

The Company's exposure to credit and foreign currency risk cash and cash equivalents are disclosed in Note 26.

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.

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

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 movement of the allowance for doubtful receivables is as follows:

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

(*) The Company has provided provision for that amount in previous periods however the Company has netted off doubtful receivables with provision for doubtful receivables related to that amount in the current year since it has been decided that the collection of that amount is not possible.

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.

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

(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).

The Company's exposure to liquidity and foreign currency risk for short term trade payables are disclosed in Note 26.

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) (Note 19). As at 31 December 2018 and 2017, the provisions for impairment on inventories are recognized in cost of goods sold (Note 19).

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

NOTE 9 - INVENTORIES (Continued)

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)**

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 sales of gift checks	7.380	9.222
Advances received	5.002	8.341
Other	150	97
	12.532	**17.660**

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

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**

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 and buildings has been determined based on the optimization of the results derived from "market comparison analysis method", "cost analysis method" and "direct capitalization method".

(*) Revaluation loss on land and buildings which are classified in investment property are amounting to TL 1.234 and TL 33, respectively. Those amounts has been recognised in expenses from investing activities. 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). For the year ended 31 December 2018, depreciation charge amounting to TL 9,029 was allocated to marketing expenses (31 December 2017: TL 11,053) and TL 10,181 was allocated to general administrative expenses (31 December 2017: TL 9,856).

(***) The fair value measurements of the Company's land and building as at 7 January 2019 were performed by Avrupa Gayrimenkul Değerleme ve Danışmanlık A.Ş., an independent valuation entity 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 land and building was determined based on the direct capitalization analysis method. 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 and 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 profit or losses (Note 11 and 2.2). Fair value of the related land and building is level 2. As of 31 December 2018, if the land and buildings measured by the revaluation model are accounted for using the cost model method, their net book values are TL 3.444 and TL 5.377 (31 December 2017: TL 3.444 and TL 5.434).

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**

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

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).

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			
	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 losses amounting to TL 2.567 (31 December 2017: TL 3.201) is recognized under gain/(losses) on remeasurement of defined benefit plans in other comprehensive income.

Other comprehensive income that will be reclassified to profit or loss

Cash flow hedge reserves

Cash flow hedge reserves consist of effective portion of the accumulated net change in the fair value of the cash flow hedge instrument.

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 on /(reversal of impairment on) property, plant and equipment, (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 related to 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 respectively.

NOTE 23 – FINANCE COSTS

The details of finance expense 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 profit/ (loss) before income 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 deferred tax assets which has been calculated from previous year tax losses in previous period	*(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
Diluted (loss)/ 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.

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

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).

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			
Derivative 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:

	Receivables		
Credit risk of financial instruments	Trade Receivables		
31 December 2018	Related Parties	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 financial instruments	**Trade Receivables**		
31 December 2017	**Related Parties**	**Third Parties**	**Deposits at bank and credit card receivables**
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

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 2.300 that the Company can utilize whenever needed as of 31 December 2018 (2017: TL 1.848).

(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)

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 for 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 derivatives	**--**	**--**	**--**	**--**
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	**Appreciation 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	**Appreciation 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	Fair value through OCI financial asset and liabilities	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	Fair value through OCI financial asset and liabilities	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.

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