Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. and Its Subsidiaries

Condensed Consolidated Interim Financial Statements As at and for the Nine-Month Period Ended
30 September 2019

(Originally Issued In Turkish)

07 November 2019

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

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DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş. and ITS SUBSIDIARIES
REVIEWED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL INFORMATION AS AT 30 SEPTEMBER 2019
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

		Not Audited	Audited
Assets	***Notes***	**30 September 2019**	**31 December 2018**
Current Assets		**416,912,414**	**354,119,357**
Cash and cash equivalents	*3*	1,141,808	3,566,888
Trade receivables		128,622,646	95,915,273
- Trade receivables from related parties	*5*	*1,684,609*	*1,110,954*
- Trade receivables from third parties		*126,938,037*	*94,804,319*
Other receivables		3,444,273	2,872,979
- Other receivables from third parties		*3,444,273*	*2,872,979*
Inventories		233,492,719	212,208,688
Prepayments		42,576,743	31,668,883
Current tax assets	*8*	679,419	654,410
Other current assets		6,463,606	6,741,036
		416,421,214	**353,628,157**
Assets held for sale		491,200	491,200
Non-current assets		**315,642,013**	**283,263,188**
Other receivables		5,116,956	2,461,967
- Other receivables from third parties		*5,116,956*	*2,461,967*
Financial investments		9,469,958	9,469,958
Investment properties		25,845	25,214
Property, plant and equipment	*6*	243,262,478	249,063,153
Right-of-Use Assets		30,981,023	-
Intangible assets		20,011,602	22,242,896
Deferred Tax Assets		6,774,151	-
Total Assets		**732,554,427**	**637,382,545**

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

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş. and ITS SUBSIDIARIES
REVIEWED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL INFORMATION AS AT 30 SEPTEMBER 2019
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

Liabilities	*Dipnot*	Not Audited 30 September 2019	Audited 31 December 2018
Current Liabilities		**491,799,873**	**470,311,426**
Short-term borrowings	*4*	98,897,814	94,575,077
Short-term portion of long term borrowings	*4*	126,344,114	119,879,404
Trade payables		133,356,580	139,747,411
-Trade payables to third parties		*133,356,580*	*139,747,411*
Payables related to employee benefits		8,029,504	5,240,814
Other payables		46,173,449	57,870,163
- Other payables to third parties		*1,189,432*	*1,143,164*
- Other payables to related parties	*5*	*44,984,018*	*56,726,999*
Deferred revenue		67,189,685	42,094,258
Short-term provisions		11,374,930	10,693,468
- Short-term employee benefits		*3,803,709*	*3,800,626*
- Other short-term provisions	*7*	*7,571,221*	*6,892,842*
Other current liabilities		433,796	210,831
Non-current Liabilities		**196,372,667**	**170,759,079**
Long-term borrowings	*4*	189,798,088	161,800,015
Other payables		1,899,788	711,204
- Other payables to third parties		*1,899,788*	*711,204*
Deferred revenue		-	-
Long-term provisions		4,674,791	4,455,132
- Long-term employee benefits		*2,545,291*	*2,531,099*
- Other long-term provisions	*7*	*2,129,500*	*1,924,033*
Deferred tax liabilities	*8*	-	3,792,728
Equity		**44,381,887**	**(3,687,960)**
Equity attributable to owners of the company			
Share capital		209,069,767	209,069,767
Reverse merger capital differences		(159,069,767)	(159,069,767)
Share premiums		9,282,945	282,945
Treasury share (-)		(510,991)	(510,991)
Other comprehensive income / (expense) not to be reclassified to profit or loss		116,690,771	116,690,771
- Increase on revaluation of property and equipment		*115,492,865*	*115,492,865*
- Actuarial gain arising from employee benefits		*1,197,906*	*1,197,906*
Other comprehensive income / (expense) to be reclassified to profit or loss		(628,778)	-
Legal reserves		1,107,177	1,107,177
Accumulated losses		(171,257,862)	(82,038,854)
Profit/ (loss) for the period		(20,301,375)	(89,219,008)
Total Liabilities and Equity		**732,554,427**	**637,382,545**

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

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

		Not-Reviewed	**Not-Reviewed**	**Not-Reviewed**	**Not-Reviewed**
Profit or loss	***Notes***	**1 January - 30 September 2019**	**1 July - 30 September 2019**	**1 January - 30 September 2018**	**1 July- 30 September 2018**
Revenue		442,025,000	139,315,558	435,840,612	161,825,465
Cost of sales (-)		(303,107,769)	(98,096,254)	(309,785,078)	(117,407,295)
Gross profit		**138,917,231**	**41,219,304**	**126,055,534**	**44,418,170**
General administrative expenses (-)	*9*	(18,334,419)	(5,924,959)	(24,508,524)	(9,314,644)
Selling, marketing and distribution expenses (-)	*9*	(84,106,077)	(31,376,934)	(92,815,444)	(29,841,885)
Research and development expenses (-)	*9*	(2,805,072)	(909,483)	(2,418,932)	(872,852)
Other income from operating income	*10*	38,389,628	18,522,424	80,609,331	60,016,433
Other expense from operating expenses (-)	*10*	(43,344,975)	(18,299,763)	(70,188,405)	(54,784,966)
Operating profit		**28,716,316**	**3,230,589**	**16,733,560**	**9,620,256**
Income from investing activities		454,994	125,219	553,210	76,830
Impairment losses determined in accordance with TFRS 9		-	-	(236,032)	--
Operating profit before financial expense		**29,171,310**	**3,355,808**	**17,050,738**	**9,697,086**
Finance income	*11*	51,862,836	35,863,088	69,517,388	57,064,106
Finance expenses (-)	*11*	(111,725,052)	(44,459,196)	(197,469,377)	(135,359,027)
Profit/ (loss) before tax from continuing operations		**(30,690,906)**	**(5,240,300)**	**(110,901,251)**	**(68,597,835)**
Taxation on income					
- Current Tax Income/(Expense)		(177,348)	(177,348)	-	-
- Deferred tax benefit /(expense)	*8*	10,566,879	5,046,159	20,102,692	12,505,750
Profit/ (Loss) for the period		**(20,301,375)**	**(371,489)**	**(90,798,559)**	**(56,092,085)**
Earnings/(Losses) per share	*14*	(0.0008)	(0.00001)	(0.005)	(0.003)
Diluted earnings / (losses)per share	*14*	(0.0008)	(0.00001)	(0.005)	(0.003)

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

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

	Not-Reviewed	**Not-Reviewed**	**Not-Reviewed**	**Not-Reviewed**
	1 January - 30 September 2019	**1 July - 30 September 2019**	**1 January - 30 September 2018**	**1 July- 30 September 2018**
Profit / (Loss) for the period	**(20,301,375)**	**(371,489)**	**(90,798,559)**	**(56,092,085)**
Other comprehensive income:				
Items that will not be reclassified to profit or loss				
Revaluation reserves	-	-	-	-
Defined benefit plans remeasurement fund	-	-	-	-
Deferred tax benefit or expenses that will not be reclassified to profit or loss	-	-	-	-
Other comprehensive income, after tax	**-**	**-**	**-**	**-**
Total comprehensive income / (expense)	**(20,301,375)**	**(371,489)**	**(90,798,559)**	**(56,092,085)**

REVIEWED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019

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

				Other comprehensive income that will not be reclassified to profit or loss		Other comprehensive income that will be reclassified to profit or loss		Accumulated profit / losses		
	Share capital	**Share premiums**	**Treasury shares**	**Remeasurement differences**	**Revaluation reserves**	**Other Gains/Losses**	**Legal reserves**	**Accumulated Losses**	**Net profit / (loss) for the period**	**Total equity**
Balance at 1 January 2018	**50,000,000**	**282,945**	**(10,991)**	**1,533,376**	**115,492,865**	**-**	**607,177**	**(93,971,564)**	**15,256,414**	**89,190,222**
Adjustment on initial application of IFRS 9, net of tax (Note 2)	-	-	-	-	-	-	-	(2.823.704)	-	(2.823.704)
Restated balance at 1 January 2018	**50,000,000**	**282,945**	**(10,991)**	**1,533,376**	**115,492,865**	**-**	**607,177**	**(96,795,268)**	**15,256,414**	**86,366,518**
Transfers	-	-	-	-	-	-	-	15,256,414	(15,256,414)	-
Depreciation Transfer	-	-	-	-	(1,153,209)	-	-	1,153,209	-	-
Increase/(Decrease) due to Share Buybacks	-	-	(500,000)	-	-	-	-	-	-	(500,000)
Total Comprehensive İncome	-	-	-	-	-	-	-	-	(90,798,559)	(90,798,559)
Other Increase/(Decrease)	-	-	-	-	-	-	-	(1,540,048)	-	(1,540,048)
Balance at 30 September 2018	**50,000,000**	**282,945**	**(510,991)**	**1,533,376**	**114,339,656**	**-**	**607,177**	**(81,925,693)**	**(90,798,559)**	**6,472,089**
Balance at 1 January 2019	**50,000,000**	**282,945**	**(510,991)**	**1,197,906**	**115,492,865**	**-**	**1,107,177**	**(82,038,854)**	**(89,219,008)**	**(3,687,960)**
Transferler	-	-	-	-	-	-	-	-	-	-
Depreciation Transfer	-	-	-	-	-	-	-	-	-	-
Capital Increase	60,000,000	9,000,000	-	-	-	-	-	-	-	69,000,000
Increase /(decrease) Due to Redemption of Shares	-	-	-	-	-	-	-	(89,219,008)	89,219,008	-
Total Comprehensive Income / (Loss)	-	-	-	-	-	(628,778)	-		(20,301,375)	(20,930,153)
Balance at 30 September 2019	**110,000,000**	**9,282,945**	**(510,991)**	**1,197,906**	**115,492,865**	**(628,778)**	**1,107,177**	**(171,257,862)**	**(20,301,375)**	**44,381,887**

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

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

	Notes	Not-Reviewed 1 January - 30 September 2019	Not-Reviewed 1 January - 30 September 2018
Profit/ (loss) for the period		**(20,301,375)**	**(90,798,559)**
Adjustments to reconcile net profit/ (loss) for the period		**74,272,284**	**114,884,397**
Adjustments related to amortisation and depreciation		23,658,234	17,215,225
Adjustments related to provision for employment termination benefits		17,275	-
Adjustments related to reversal other provisions		1,320,139	-
Adjustments related to provision for warranty		436,293	2,404,877
Adjustments related to tax benefit/(expense)	*8*	(10,566,879)	(20,102,692)
Adjustments related to interest expenses	*11*	53,491,755	46,009,328
Adjustments related to interest income	*11*	(1,808)	(35,531)
Adjustments related to unrealized currency translation difference		6,372,269	69,393,190
Adjustments related to (gain)/loss disposal of tangible and intangible assets		(454,994)	-
Changes in working capital:		**(58,543,464)**	**(30,502,446)**
Decrease/(increase) in trade receivables		(32,707,374)	(2,765,856)
Decrease/(increase) in other receivables related with operations		(3,226,283)	(5,072,039)
Increase in inventories		(21,284,031)	(15,565,126)
Decrease/(increase) in prepaid expenses		(10,907,860)	14,620,059
Decrease/(increase) in other current assets related with operations		277,430	13,515,134
Decrease/(increase) in trade payables		(6,390,831)	(62,223,859)
Decrease /(increase) in payables for employment termination		1,108,186	2,155,877
Decrease/(increase) in other liabilities related with operations		(10,508,130)	4,939,888
Decrease /(increase) in deferred revenue		25,095,429	19,893,476
Cash outflows for operations		**(4,572,555)**	**(6,416,608)**
Payments for other provisions		-	-
Taxes paid		-	(368,983)
Interest paid		-	-
A. Cash outflows for operating activities		**(4,572,555)**	**(6,785,591)**
Interest received	*11*	-	35,531
Cash outflows from purchases of tangible and intangible assets	*6*	(10,385,153)	(19,179,397)
Cash inflows from sales of tangible and intangible assets		934,501	4,020,873
B. Cash outflows from investing activities		**(9,450,652)**	**(15,122,993)**
Interest paid		(48,232,382)	(35,893,273)
Cash from Capital Increase		60,000,000	-
Cash from Share Premiums		9,000,000	-
Cash inflows from bank borrowings	*4*	113,209,069	202,113,297
Cash outflows due to the payments of bank borrowings	*4*	(122,378,560)	(142,086,110)
C. Cash outflows from financing activities		**11,598,127**	**24,133,914**
Net increase/(decrease) in cash and cash equivalents (A+B+C)		**(2,425,080)**	**(2,225,330)**
D. Cash and cash equivalents at the beginning of the period	*3*	**3,566,888**	**3,363,130**
Cash and cash equivalents at the end of the period (A+B+C+D)	*3*	**1,141,808**	**5,588,460**

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

1. ORGANISATION AND NATURE OF OPERATIONS OF THE GROUP

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

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

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

The main operating segment is production and sale of furnitures.

The address of the registered office is İdealtepe Mahallesi Rıfkı Tongsir Caddesi No:107/ Küçükyalı, Maltepe/İSTANBUL.

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

The Company is registered in Capital Market Board ("CMB") and its shares have been traded in Borsa İstanbul A.Ş. ("BİST") since 1990 (formerly known as "Istanbul Stock Exchange") under the name DGKLB. As of 30 September 2019, 38.85 % of its shares are open for trading.

Subsidiaries

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

Doğtaş Mobilya Pazarlama Ticaret A.Ş. ("Doğtaş Pazarlama") which is a subsidiary of the Company was established in 1996 and operates in selling and marketing of furniture and sofa groups and commercial products. Doğtaş Pazarlama has no branches in Turkey as at 30 September 2019 (31 December 2018: None).

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

1. ORGANISATION AND NATURE OF OPERATIONS OF THE GROUP (continued)

The shareholding structure of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. as at 30 September 2019 and 31 December 2018 is as follows:

	30 September 2019		31 December 2018	
	%	**TL**	**%**	**TL**
Portion trading on Borsa Istanbul	38.85	104,534,884	49.99	104,534,884
Doğanlar Yatırım Holding A,Ş.	25.36	68,250,000	3.95	8,250,000
Davut Doğan	5.96	16,047,503	7.68	16,047,503
Adnan Doğan	5.96	16,047,484	7.68	16,047,484
Şadan Doğan	5.96	16,047,474	7.68	16,047,474
İsmail Doğan	5.96	16,047,474	7.68	16,047,474
İlhan Doğan	5.96	16,047,474	7.68	16,047,474
Murat Doğan	5.96	16,047,474	7.68	16,047,474
	100	**269,069,767**	**100**	**209,069,767**

As at 30 September 2019, the paid-in share capital of the Company is TL 209,069,767. However, the portion of the capital amounting to TL 159,069,767 is attributable to Doğan Taş Doğanlar Mobilya İmalat Enerji Üretim Sanayi A.Ş. and Kelebek Mobilya Sanayi ve Ticaret A.Ş. during the merger.

The shareholding structure of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. as at 30 September 2019 and 31 December 2018 is as follows:

				Proportion of effective interest of the Company(%)	
Subsidiaries	**Registered Country**	**Nature of operation**	**Functional currency**	**30 September 2019**	**31 December 2018**
Doğtaş Mobilya Pazarlama Ticaret A.Ş. ("Doğtaş Pazarlama")	Turkey	Sales and marketing of furniture	TL	100	100
Doğtaş Bulgaria Eood ("Doğtaş Bulgaria")	Bulgaria	Sales and marketing of furniture	Leva	100	100
Doğtaş Holland B.V. ("Doğtaş Holland")	Nederland	Sales and marketing of furniture	EUR	100	100
Doğtaş Germany GmbH ("Doğtaş Germany")	Germany	Sales and marketing of furniture	EUR	100	100
2K Oturma Grupları İnşaat ve Taahhüt San. ve Tic. A.Ş. ("2K")	Turkey	Sales of sitting group	TL	100	100
3K Mobilya Dekor. San. ve Tic. A.Ş. ("3K")	Turkey	Furniture decoration	TL	100	100

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

As at 30 September 2019, the number of employees of the Company and its subsidiaries (collectively referred to as the "Group") is 1,270 (31 December 2018: 1,275).

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

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The principle accounting policies which applied in preparing the condensed consolidated interim financial statements of the Group are as follows.

2.1 Basis of presentation of condensed consolidated interim financial statements

a) Statement of compliance with TAS

The accompanying condensed consolidated interim financial statements are prepared 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. The accompanying condensed consolidated interim financial statements are prepared based on the Turkish Accounting Standards and interpretations ("TAS") that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority ("POA") under Article 5 of the Communiqué. The condensed consolidated interim financial statements are presented in accordance with the reporting templates promulgated by Capital Market Board of Turkey on 7 June 2013.

The Group issued the condensed consolidated interim financial statements as at September 30, 2019 in accordance with Turkey Accounting Standard No. 34 "Interim Financial Reporting".

These condensed consolidated interim financial statements do not constitute solely an indicator for the yearend figures and do not include all the information and explanations required for full annual financial statements and should be read in conjunction with the Group's last audited annual consolidated financial statements as at and for the year ended 31 December 2018.

The Group has begun to apply the TFRS 15 and TFRS 9 standards with an initial application date of 1 January 2018. Comparative information has not been rearranged in accordance with the transition method used.

These condensed consolidated interim financial statements has been approved for issue by the Board of Directors on 9 August 2018. The General Assemby and the relevant regulatory authorities have right to amend the condensed consolidated interim financial statements which are prepared in accordance with the legal regulations.

b) Preparation of financial statements in hyperinflationary period

In accordance with a decision taken by CMB numbered 11/367 on 17 March 2005, it has announced that inflation accounting is not effective for the entities operating in Turkey and preparing their financial statements in accordance with the TAS starting from 1 January 2005. Therefore, TAS 29 "Financial Reporting in Hyperinflationary Economies" has not been applied since 1 January 2005.

c) Measurement bases

The condensed consolidated interim financial statement is prepared by historical cost method except for land, land improvements, buildings, machinery, plant and equipment. The historical cost is usually based on the fair value of the cost of goods and services.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.1 Basis of presentation of condensed consolidated interim financial statements (continued)

d) Functional and reporting currency

The functional currency of the companies which included in the consolidation is TL and companies record the accounting records according to commercial and financial legislation and GAAP which is published by Minister of Finance. Each entity's financial position and results of operations are expressed in TL which is the functional currency of the Group's consolidated financial statements.

Group's subsidiaries' functional currencies are summarized in Note 1.

e) Basis of consolidation

As at 30 September 2019 consolidated financial statements include the financial statements of the Company and its subsidiaries in Note 1, which have control over the Group's financial and operating policies.

The Group has control over an entity when:

- the Group has power over the investee/assets;
- exposure, or rights, to variable returns from its involvement with the entity and
- the ability to use its power over the entity to affect the amount of the Group's returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to the control power, including:

- The comparasion of voting rights held by the Group to those held by the other shareholders;
- Potential voting rights held by the Group and other shareholders;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.1 Basis of presentation of condensed consolidated interim financial statements (continued)

e) Basis of consolidation (continued)

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

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the condensed consolidated financial statements.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable TASs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under TFRS 9 Financial Instruments, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

f) Summary of significant accounting policies

Except as described below, the accounting policies applied in these interim condensed financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2018.

a. 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 new standard will change the guidance in existing TFRSs; the principles to be applied by the entity in reporting useful information about the nature, amount, timing and uncertainty of the revenue and cash flows arising from the contract made with the customer to the financial statement users. The basic principle of the standard is that the entity reflects the amount of the goods or services committed to the customers at an amount that reflects the expected amount of the entitlement to acquire.

This amendment is effective for periods beginning on or after 1 January 2018. TFRS 15 did not have a significant effect on the recognition of the Group's sales furniture revenues.

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.1 Basis of presentation of condensed consolidated interim financial statements (continued)

f) Basis of consolidation (continued)

b) 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.

First Transition to TFRS 16 Leases Standard

The Company has retrospectively recognized the TFRS 16 Leases Standard, which supersedes the TAS 17 Leasing Standard, in its financial statements by the cumulative effect of the first application of the standard ("the cumulative catch-up transition method") as of January 1, 2019, which is the exercise date. Within the simplified transition application of the mentioned method defined in the relevant standard, no adjustment is required in the comparative financial statements and the retained earnings.

As part of the first application of the TFRS 16 Leases Standard, the Lease Liability is recognized on the financial statements of the obligation to make lease payments as operating leases prior to January 1, 2019 in accordance with TAS 17 Leases. This lease liability is measured at the present value of the unrealized rents as of the date of transition, discounted the alternative borrowing interest rate at the date of the first application of the Company. Right-of-use assets are recognized as an amount equal to the lease liabilities (adjusted for the amount of prepaid or accrued lease payments) under the simplified transition application of the relevant standard.

As of January 1, 2019, the lease liabilities and right-of-use assets recognized in the financial statements under TFRS 16 are as follows;

	1 January 2019
Lease liability under TFRS 16 (undiscounted)	58,167,118
Lease liability under TFRS 16 (undiscounted)	33,390,663

	30 September 2019	**1 January 2019**
Buildings	30,981,023	31,736,606
Total right-of-use assets	**30,981,023**	**31,736,606**

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.1 Basis of presentation of condensed consolidated interim financial statements (continued)

f) Basis of consolidation (continued)

b) TFRS 16 Leases (continued)

The following facilitating practices defined in the TFRS 16 are adopted within the transition.

a) Leases with a lease term of one (1) year or less are excluded

b) Low-value assets are excluded

The Group started implementing the Turkish Financial Reporting Standards (TFRS) 16 Leases Standard on January 1, 2019. For the leases previously classified as operating leases under the Turkish Accounting Standards (TAS) 17, it has recognized a right-of-use asset in the summary consolidated financial statements based on an amount equal to the lease liability corrected for the amount of all prepaid or accrued lease payments as of January 1, 2019.

The effects of the implementation of TFRS 16 on the summary consolidated statement of financial position (balance sheet) of September 30, 2019 and the summary consolidated profit or loss statement for the 9-month interim accounting period ended the same date are presented below. The implementation of the standard does not have a material effect on the summary consolidated statement of other comprehensive income or the consolidated cash flow statement.

Balance Sheet

ASSETS	30.09.2019	TFRS 16 Effects	30.09.2019 (Excluding Effects)
Current assets	**416,912,414**	**-**	**416,912,414**
Cash and cash equivalents	1,141,808	-	1,141,808
Trade receivables	128,622,646	-	128,622,646
Other receivables	3,444,273	-	3,444,273
Inventories	233,492,719	-	233,492,719
Prepayments	42,576,743	-	42,576,743
Current tax assets	679,419	-	679,419
Other current assets	6,463,606	-	6,463,606
Total	**416,421,214**	-	**416,421,214**
Assets held for sale	491,200	-	491,200
		-	
Non-current assets	**315,642,013**	-	**283,918,363**
Other receivables	5,116,956	-	5,116,956
Financial investments	9,469,958	-	9,469,958
Investment properties	25,844	-	25,844
Property, plant and equipment	243,262,478	-	243,262,478
Right-of-Use Assets	30,981,023	30,981,023	-
Intangible assets	20,011,602	-	20,011,602
Deferred tax asset	6,774,151	742,627	6,031,525
			-
TOTAL ASSETS	**732,554.427**	**31,723,650**	**700,830,777**

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.1 Basis of presentation of condensed consolidated interim financial statements (continued)

f) Basis of consolidation (continued)

b) TFRS 16 Leases (continued)

LİABİLİTİES	**30.09.2019**	**TFRS 16 Effects**	**30.09.2019 (Excluding Effects)**
Current liabilities	**491,799,873**	**-**	**483,083,631**
Short-term borrowings	98,897,814	13,716,242	85,181,571
Short-term portion of long term borrowings	126,344,114	-	126,344,114
Trade payables	133,356,580	-	133,356,580
Payables related to employee benefits	8,029,504	-	8,029,504
Other payables	46,173,449	-	46,173,449
Deferred revenue	67,189,685	-	67,189,685
Short-term provisions	11,374,930	-	11,374,930
Other current liabilities	433,797	-	433,797
Total	**491,799,873**	-	**483,083,631**
		-	-
Non-current liabilities	**196,372,667**	-	**175,732,311**
Long-term borrowings	189,798,088	20,640,356	169,157,732
Other payables	1,899,787	-	1,899,787
Long-term provisions	4,674,791	-	4,674,791
			-
EQUİTY	**44,381,887**	-	**47,014,836**
Equity attributable to owners of the company	**44,381,887**	-	**47,014,836**
Share capital	269,069,767	-	269,069,767
Reverse merger capital differences	(159,069,767)	-	(159,069,767)
Treasury share (-)	(510,991)	-	(510,991)
Share premiums	9,282,945	-	9,282,945
Other comprehensive income / (expense) not to be reclassified to profit or loss	116,690,771	-	116,690,771
Other comprehensive income / (expense) to be reclassified to profit or loss	(628,778)	-	(628,778)
Legal reserves	1,107,177	-	1,107,177
Accumulated losses	(171,257,862)	-	(171,257,862)
Profit/ (loss) for the period	(20,301,375)	(2,632,949)	(17,668,426)
TOTAL LİABİLİTİES AND EQUİTY	**732,554,427**	**31,723,649**	**700,830,778**

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.1 Basis of presentation of condensed consolidated interim financial statements (continued)

f) Basis of consolidation (continued)

b) TFRS 16 Leases (continued*)*

Profit and Loss Statement

	01.01.2019-30.09.2019	TFRS 16 Effects	30.09.2019 Excluding Effects
PROFİT OR LOSS			
Revenue	442,025,000	-	442,025,000
Cost of sales (-)	(303,107,769)	-	(303,107,769)
GROSS PROFİT	**138,917,231**	**-**	**138,917,231**
Selling, marketing and distribution expenses (-)	(84,106,077)	1,382,755	(85,488,832)
General administrative expenses (-)	(18,334,419)	-	(18,334,419)
Research and development expenses (-)	(2,805,072)	-	(2,805,072)
Other income from operating income	38,389,628	-	38,389,628
Other expense from operating expenses (-)	(43,344,975)	-	(43,344,975)
OPERATİNG PROFİT	**28,716,316**	**-**	**27,333,561**
Income from investing activities	454,994		454,994
OPERATİNG PROFİT / (LOSS) BEFORE FİNANCİAL İNCOME / (EXPENSE)	**29,171,310**		**27,788,555**
Finance income	51,862,836	-	51,862,836
Finance expenses (-)	(111,725,052)	(4,758,331)	(106,96,721)
PROFİT/ (LOSS) BEFORE TAX FROM CONTİNUİNG OPERATİONS	**(30,690,906)**	**-**	**(27,345,330)**
Taxation on income	**10,389,531**	**-**	**9,646,904**
- Current Tax Income/(Expense)	(177,348)	-	(177,348)
- Deferred tax benefit /(expense)	10,566,879	742,627	9,824,252
PERIOD PROFIT/(LOSS) FROM CONTINUED OPERATIONS	**(20,301,375)**	**-**	**(17,668,426)**
DISCONTINUED OPERATIONS	-	-	-
Period Profit/(Loss) from Discontinued Operations, after Taxes	-	-	-
PROFİT / (LOSS) FOR THE PERİOD	**(20,301,375)**	**(2,632,949)**	**(17,668,426)**

For the leases previously classified as operating leases in accordance with TAS 17, the Group has recognized a right-of-use asset in the summary consolidated financial statements based on an amount equal to the lease liability corrected for the amount of all prepaid or accrued lease payments as of January 1, 2019. Accordingly, the implementation of the TFRS 16 Leases Standard has no effect on the Group's retained earnings as of January 1, 2019

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.1 Basis of presentation of condensed consolidated interim financial statements (continued)

f) Basis of consolidation (continued)

c)Hedge Accounting

The Group identifies cash flow hedging as a hedge against volatility, which results from a particular risk and may affect profit/loss, in cash flows of a registered asset, and a liability or transactions that may be associated with a certain risk and which are likely to occur at the date of the bank loan agreement.

The Group presents its gains and losses related to cash flow hedging transactions, which are considered effective, as "other comprehensive revenues or expenses to be reclassified in profit or loss in equity." In case the hedging commitment or potential future transaction becomes a non-financial asset or liability, gains or losses arising from these transactions, which are presented among the equity items, are recognized from these equity items and included in the acquisition cost or book value of the asset or liability in question. Otherwise, the amounts recognized under the equity items are transferred to the profit or loss statement in the period in which the potential hedging transaction affects the table in question and are presented as income or expense. If the potential transaction is no longer expected to occur, the accumulated earnings and losses previously recognized in equity are transferred to the profit or loss statement. In case the hedging instrument is expired, sold, terminated or used, or if its designation is revoked, without being identified another instrument instead or being extended in line with the documented hedging strategy, the earnings and losses previously recognized in other comprehensive revenue continue to be classified under equity until the final commitment or appraised transaction affects the profit or loss table.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.1 Basis of presentation of condensed consolidated interim financial statements (continued)

g) Significant Accounting Estimates and Assumptions

Preparation of financial statements in accordance with TAS requires certain assumptions and significant accounting estimates that will affect the explanatory notes on assets and liabilities, contingent assets and liabilities and income and expense items. Although these estimates are based on the best estimates of management's current events and actions, actual results may differ from those predicted. Assumptions and estimates that require complex and further comment may have significant impact on financial statements. The assumptions and significant accounting estimates used in the preparation of the financial statements in the nine-month interim condensed consolidated financial statements as at 30 September 2019 have not changed compared to those used in the previous year.

- **Determination of fair value**

The Group's various accounting policies and disclosures require to be determined that the fair value of both financial and non-financial assets and liabilities. Fair value is determined for measurement and/ or disclosure by the following methods. Where applicable, additional information about the assumptions used in determining fair value is presented in the notes to the asset or liability.

i) Trade and other receivables

Fair values of trade and other receivables are estimated at the present value of future cash flows by discounting them at market interest rates at the measurement date. Short-term receivables with no specific interest rate are valued at the original invoice amount if the reduction effect is not significant. These fair values are determined at the time of initial recognition and at the end of each reporting period for illustrative purposes.

ii) Other non-derivative financial liabilities

The fair value of other non-derivative financial liabilities is determined at initial recognition and at the end of each reporting period for disclosure purposes. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date.

- **Provisions, contingent assets ve contingent liabilities**

Provision are recognised in the consolidated financial statements, when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate, used to calculate the present value of the provision should be pre-tax rate reflecting the current market assessments of the time value of money and the risks specific to the liability. The discount rate shall not reflect risks for which future cash flow estimates have been adjusted.

A possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group have not been recognised in these consolidated financial statements and treated as contingent liabilities and contingent assets.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.1 Basis of presentation of condensed consolidated interim financial statements (continued)

g) Significant Accounting Estimates and Assumptions (continued)

- **Deferred tax**

The Group recognizes deferred tax asset and liability on the differences between the carrying amounts of assets and liabilities in the financial statements prepared in accordance with TAS and the corresponding tax bases which is used in the computation of taxable profit. Under current circumstances, the partial or complete recoverable amounts of deferred tax assets are predicted. During the evaluation, future profit projections, current year's losses, unused losses and the expiration dates of other tax assets, and if necessary tax planning strategies are considered. Based on the data obtained, if the Group's taxable profit, which will be obtained in the future, is not enough to fulfill the deferred tax assets, a provision is provided either for the whole or for a certain part of the deferred tax asset. As at 30 September 2019 and 31 December 2018, after the necessary evaluations, the deferred tax assets are fully accounted because of expectation of taxable profit in the future.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods. The Group estimates that it will be able to utilize the deductible carry forward tax losses using the estimated profits in the following years.

- **Related parties**

Shareholders, members of Board of Directors and key management personnel, in each case together with their families and companies controlled by or affiliated with them, joint ventures and associates are considered and referred to as related parties.

- **Inventories**

Inventories are valued at the lower of cost or estimated selling price less estimated costs necessary to make a sale. Cost elements included in inventory are purchase costs and other costs necessary to prepare the asset for its intended use. Cost elements included in inventories are materials, labor and production overheads.

The cost is determined using the monthly weighted average method for inventories. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.1. Basis of presentation of condensed consolidated interim financial statements (continued)

g) Significant Accounting Estimates and Assumptions (continued)

- **<u>Property, plant and equipment</u>**

The depreciation periods for property and equipment, which approximate the estimated economic useful lives of such assets, are as follows:

	Faydalı ömür
Land improvements and buildings	15 - 50 years
Machinery, plant and equipment	5 - 28 years
Furniture and fixtures	2 - 15 years
Vehicles	4 - 5 years
Leasehold improvements	4 - 5 years

Land, land improvements and buildings and machinery and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated impairment losses. The Group can make the fair value assessments between 3 and 5 years. The Group has revised its assessment of the fair value of related tangible fixed assets as at 31 December 2017. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the relevant asset, and the net amount is restated to the revalued amount of the assets.

Land, land improvements, machinery and equipment and buildings that were revalued at 29 December 2017 by independent external valuers, were recorded on determined fair values on the consolidated financial statements. The frequency of revaluation operations is determined to ensure that the carrying amounts of the revalued tangible assets are not significantly different from their fair values at the end of the reporting period. The frequency of revaluation depends on the change in the fair value of property, plant and equipment. In cases where it is believed that the revalued amount is significantly different from the carrying amount of the revalued amount, it is necessary to repeat the revaluation and the assessment is performed for the entire asset level with revalued assets at the same date. Besides, it is not considered necessary to repeat the revaluation for tangible assets whose fair value changes are insignificant.
There are various calculation methods to estimate best fair value calculation as follows:

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

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.1. Basis of presentation of condensed consolidated interim financial statements (continued)

g) Significant Accounting Estimates and Assumptions (continued)

- **Intangible assets**

Intangible assets are presented with net book value after deduction of amortisation. Intangible assets are capitalized if future economic benefits arising from intangible assets are going to be beneficial to the firm and cost can be measured.

Purchased intangible assets are amortised on a straight-line basis over their useful lives for 2 to 5 years.

Intangible assets include acquired rights and copyrights.

Kelebek brand value

Doğ-taş Doğanlar Mobilya İmalat Enerji Üretim Sanayi ve Ticaret A.Ş., acquired 67% shares of Kelebek Mobilya Sanayi ve Ticaret A.Ş. on 6 September 2012. The value of the Kelebek brand acquired through this acquisition has been recorded at fair value on 6 September 2012 in accordance with TFRS 3 and the financial statements have unlimited life for this brand with no legally restricted use. The brand value is subject to an impairment test once a year.

h) Standards and interpretations but not yet effective and not early adopted as at 30 September 2019

The Group has implemented new and revised standards and interpretations related to its subject matter of activity, which are described in the Turkish Accounting Standards (TAS) and the Turkish Financial Reporting Standards (TFRS), issued by the Public Oversight Accounting and Auditing Standards Authority, and effective as of January 1, 2018.

Amendments to and interpretations on new standards in force as of September 30, 2019, and previously available standards:

- **The TFRS 9 "Financial Instruments"** is applicable to annual reporting periods starting on or after January 1, 2018. This standard supersedes TAS 39. It contains the requirements for the classification and measurement of financial assets and liabilities, as well as the expected credit loss model, which will replace the currently used impairment loss model.

- **The TFRS 15 "Revenue from Contracts with Customers"** is applicable to annual reporting periods starting on or after January 1, 2018. The new standard, which resulted from the study of compliance with the Generally Accepted Accounting Principles of the United States (U.S. GAAP), aimed to ensure the financial reporting of revenue and the comparability of the total revenue of the financial statements worldwide.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

h) Standards and interpretations but not yet effective and not early adopted as at 30 September 2019 (continued)

- **The amendments to the TFRS 15 standard titled "Revenue from Contracts with Customers"** are effective for annual reporting periods starting on or after January 1, 2018. These changes cover the explanations for the implementation guidance that determines performance obligations, accounting of intellectual property licenses, and principal versus agent assessment (gross versus net revenue presentation). New and modified explanatory examples have been included for each of these implementation guidance topics. The International Accounting Standards Board (IASB) has also included supplemental practical measures regarding the transition to the new revenue standard.

- **The amendments to the TFRS 4 standard titled "Insurance Contracts"** are effective for annual reporting periods starting on or after January 1, 2018. The amendment to TFRS 4 provides two different approaches for insurance companies, namely the overlay approach and the deferral approach. Accordingly:

  New standards, amendments, and interpretations

  - Shall provide, before any new insurance contract standards are released, all companies issuing insurance contracts with the option to account for the statement of other comprehensive income instead of recognizing the fluctuations that may arise when TFRS 9 is applied in profit or loss; and
  - Shall grant a temporary exemption from implementing TFRS 9 until 2021, for companies whose activities are mainly linked to insurance, at the companies request. Businesses that postpone the implementation of TFRS 9 shall continue to use the existing TAS 39 "Financial Instruments" standard.

- **The amendments to the TAS 40 standard titled "Investment Property"** are effective for annual reporting periods starting on or after January 1, 2018. These amendments regarding the classification of investment properties provide netting for investment properties or classifications of properties in case of changes in the purpose of their use. If the use of a property changes, an assessment on whether it complies with the definitions of "investment property" is required. This change should be supported by evidence.

- **The amendments to TFRS 2 standard titled "Share-based Payment"** are effective for annual reporting periods starting on or after January 1, 2018. The amendment explains the principles of measurement of cash-settled, share-based payments and how to recognize the changes that turn a award from cash-settled to equity-settled status. This amendment also introduces an exception to the principles of the TFRS 2 and requires such award to be treated as if it were fully equity-settled where an employer deducts an amount related to a share-based payment of an employee and pays it to a tax administration.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

h) Standards and interpretations but not yet effective and not early adopted as at 30 September 2019 (continued)

Annual improvements for the period 2014–2016 applies to annual reporting periods starting on or after January 1, 2018.

- TFRS 1 "the first implementation of Turkish Financial Reporting Standards" removed the short-term exceptions of the TFRS 7, TAS 19 and TFRS 10 standards for the first time during the implementation phase.
- TAS 28, "Investments in Associates and Joint Ventures," provides clarification on the measurement at fair value of an associate or a joint venture.

- **TFRS Interpretation 22 "Foreign Currency Transactions and Advance Consideration"** applies to annual reporting periods starting on or after January 1, 2018. This interpretation clarifies foreign currency transactions and the issue of making or pricing payments made in foreign currency as part of such transactions. This interpretation guides the making/receiving of a single payment and the cases in which multiple payments are made/received. The purpose of this guidance is to reduce the variability in implementation.

01 Standards and amendments published and entered into force as of January 2019:

- **The amendments to TFRS 9 "Financial Instruments"** are effective for annual reporting periods starting on or after January 1, 2019. This amendment confirms that if a financial liability measured at amortized cost is changed without causing a derecognition, the gain or loss should be recognized directly in profit or loss. Gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted from the original effective interest rate. This means that, unlike TAS 39, the difference cannot be recognized by spreading over the remaining life of the instrument.

  The amendments to TAS 28, "Investments in Associates and Joint Ventures," are effective for annual reporting periods starting on or after January 1, 2019. It has been clarified that companies that do not apply the equity method for their long-term shareholdings or jointly controlled investments will be using TFRS 9 to recognize them.

- **TFRS 16 "Leases"** is applicable to annual reporting periods starting on or after January 1, 2019. TFRS 15 standard titled "Revenue from Contracts with Customers" allows early implementation. This new standard supersedes the current TAS 17 guidance by making a comprehensive change in accounting, especially for lessees. According to current TAS 17 procedures, when the lessees are a party to a leasing transaction, they are required to make a distinction between the financial lease (in-balance sheet) and the operating lease (off-balance sheet) for this transaction. However, under TFRS 16, lessees will now have to reflect their future lease obligations for virtually all lease contracts and, in turn, the right-to-use an asset, in their balance sheets. The IASB provides an exception for short-term leases and low-value assets, but this exception applies only to lessors. For lessors, the accounting remains almost the same. However, lessors will also be affected by this new standard because the IASB has changed the definition of the lease (as it changed the guidance on merging or separating contents of contracts). At least, the new accounting model is expected to lead to bargaining between lessors and lessees. According to TFRS 16, if any contracts contain the right-of-use of an asset and the right to control the use of an asset in return for a certain amount of money within a specified period, that contract is a lease agreement or includes a leasing transaction.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

h) Standards and interpretations but not yet effective and not early adopted as at 30 September 2019 (continued)

- **TFRS Interpretation 23, "Uncertainty over Income Tax Treatments,"** is effective for annual reporting periods beginning on or after January 1, 2019. This interpretation clarifies some of the uncertainties in the implementation of the TAS 12 Income Taxes standard. The IFRS Interpretations Committee clarified that if there was an uncertainty in tax practices, it would be necessary to apply the TAS 37 "Provisions, Contingent Liabilities and Contingent Assets" standard rather than TAS 12 for this uncertainty. TFRS Comment 23 provides guidance on how to measure and recognize deferred tax calculations when there are uncertainties in income taxes.

  Tax application uncertainty arises when there is an uncertainty as to whether a certain tax application by a company is acceptable to the tax authorities. For example, whether a particular expense item can be recognized as a deduction or whether in the calculation of refundable taxes a particular item should or should not be included is unclear in the relevant tax law. TFRS Interpretation 23 is applicable in situations where the tax treatment of an item is uncertain; and in all situations including the tax bases of taxable income, expense, asset or liability, tax expenses, tax receivables, and tax rates.

- **TFRS 17, "Insurance Contracts,"** is effective for annual reporting periods starting on or after January 1, 2021. This standard replaces TFRS 4, which currently allows a wide range of implementations. TFRS 17 will fundamentally change the accounting for all entities that issue insurance contracts and investment contracts with voluntary participation features.

- **Annual improvements for the period 2015–2017** applies to annual reporting periods starting on or after January 1, 2019. These improvements cover the following changes:

  - The business that has control of TFRS 3 "Business Combinations" re-measures its previously acquired share in the joint operation.
  - The business that has joint control of TFRS 11 "Joint Arrangements" does not re-measure its previously acquired share in the joint activity.
  - The business that implements TAS 12 "Income Taxes" recognizes income tax effects of dividends in the same way.
  - TAS 23 "Borrowing Costs" recognizes each borrowing to be made available for the intended use or sale of a qualifying asset as the part of the general borrowing.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

h) Standards and interpretations but not yet effective and not early adopted as at 30 September 2019 (continued)

- **TAS 19 "Employee Benefits,"**the amendment to the plan, downsizing or fulfillment improvements are effective for annual reporting periods starting on or after January 1, 2019. These improvements require the following changes:

  - Using current assumptions to determine current service cost and net interest for the period after the change of the plan, downsizing and fulfillment,
  - Reflecting any decrease in surplus value and a fulfillment gain or loss in financial statements, even if the accounting for profit or loss as part of prior period service cost or effect of the asset ceiling has not been previously recognized in the financial statements.

- **The amendments to the definition of material of TAS 1 and TAS 8** are effective for annual reporting periods starting on or after January 1, 2020. Amendments to TAS 1 "Presentation of Financial Statements" and TAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" as well as other TFRS amendments depending on these amendments are as follows:

  i) Use of material definition consistent with the TFRS and financial reporting framework
  i) clarification of the definition of material, and
  ii) inclusion of some guidance in TAS 1 regarding non-material information

- **Amendments to TFRS 3 - business definition** are effective for annual reporting periods starting on or after January 1, 2020. These amendments revised the definition of business. Feedback received by the IASB reveals that companies often think that the current implementation guidance is too complex and requires many transactions to meet the definition of business combinations.

The following standards, amendments, and interpretations have not yet been published by Public Oversight Accounting and Auditing Standards Authority:

- TFRS 17 "Insurance Contracts"
- The amendments to TFRS 15 "Revenue from Contracts with Customers"
- The amendments to the definition of material in TAS 1 and TAS 8
- Amendments to TFRS 3 - business definition

The Group will assess the effects of the above amendments on its operations and implement them from the effective date. The said amendments, except for those of TFRS 16, are not expected to have a significant impact on the Group's financial statements, operations, and financial performance.

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

h) Standards and interpretations but not yet effective and not early adopted as at 30 September 2019 (continued)

The effects of the Group's accounting policy changes under TFRS 16 on its financial statements are as follows:

For the leases previously classified as operating leases in accordance with TAS 17, the Group has recognized a right-of-use asset in the summary consolidated financial statements based on an amount equal to the lease liability corrected for the amount of all prepaid or accrued lease payments as of January 1, 2019. Accordingly, the implementation of the TFRS 16 Leases Standard has no effect on the Group's retained earnings as of January 1, 2019.

Balances of right-of-use assets as of January 1 and September 30, 2019, and the depreciation and amortization expenses for the corresponding period are as follows:

	Property, plant and equipment					**Intangible assets**	
	Furniture and fixtures	**Store Rentals**	**Vehicles**	**Other**	**Total**	**Rights**	**Total**
1 January 2019	-	31,736,606	-	-	31,736,606	-	-
Additions	-	6,025,101	-	-	6,025,101	-	-
Charge of the year	-	(6,780,684)	-	-	(6,780,684)	-	-
30 September 2019	-	**30,981,023**	-	-	**30,981,023**	-	-

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

3. CASH AND CASH EQUIVALENTS

	30 September 2019	31 December 2018
Cash on hand	57,090	8,155
Cash at banks – Demand deposit	791,912	3,287,486
Other cash and cash equivalents (*)	292,806	271,247
	1,141,808	**3,566,888**

(*) As at 30 September 2019 and 31 December 2018 other cash and cash equivalents comprised of credit card POS receivables.

4. BORROWINGS

		30 September 2019	
	Weighted average effective interest rate %	**Original currency**	**TL Equivalent**
Short-term borrowings:			
EUR denominated bank borrowings	%0.75 - %6.60	-	-
TL denominated bank borrowings	%16.50 - %26	85,181,572	85,181,572
Short term borrowings			**85,181,572**
Short-term portion of long-term borrowings:			
EUR denominated bank borrowings	%0.75 - %6.60	7,903,396	48,871,440
USD denominated bank borrowings	%8	384,615	2,176,574
TL denominated bank borrowings	%16.50 - %26	75,296,100	75,296,100
Short-term portion of long-term borrowings			**126,344,114**
Total short-term borrowings			**211,525,686**
EUR denominated bank borrowings	%0.75 - %6.60	23,723,920	146,699,232
USD denominated bank borrowings	%8	2,140,359	12,112,506
TL denominated bank borrowings	%16.50 - %26	10,345,994	10,345,994
Long-term bank borrowings			**169,157,732**
Total bank borrowings			**380,683,418**

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

4. BORROWINGS (continued)

			31 December 2018
	Weighted average effective interest rate %	**Original currency**	**TL Equivalent**
Short-term borrowings:			
EUR denominated bank borrowings	%1.75 - %6.08	3,495,937	21,073,508
TL denominated bank borrowings	%15.90 - %29.00	73,501,569	73,501,569
Short-term borrowings			**94,575,077**
Short-term portion of long-term borrowings:			
EUR denominated bank borrowings	%1.75 - %6.08	11,074,259	66,755,632
TL denominated bank borrowings	%15.90 - %29.00	53,123,772	53,123,772
Short-term portion of long-term borrowings			**119,879,404**
Total short-term borrowings			**214,454,481**
EUR denominated bank borrowings	%1.75 - %6.08	20,963,156	126,365,903
TL denominated bank borrowings	%15.90 - %29.00	35,434,112	35,434,112
Long-term bank borrowings			**161,800,015**
Total bank borrowings			**376,254,496**

As at 30 September 2019 and 31 December 2018, all borrowings are guaranteed and there is a mortgage on the property, plant and equipment of the Group.

The reconciliation of the Group's obligations arising from its financial activities as at 30 September 2019 and 31 December 2018 is as follows:

	30 September 2019	31 December 2018
1 January 2019 borrowings	376,254,496	255,094,961
Proceed form borrowings	113,209,069	234,132,264
Repayment of borrowings	(122,378,560)	(162,797,477)
Interest accruals	7,236,144	10,180,767
Effects of change in foreign exchange	6,362,269	39,643,981
30 September 2019 borrowings	**380,683,418**	**376,254,496**

The Group's exposure to currency risk related to borrowings are disclosed in Note 12

.

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

4. BORROWINGS (continued)

The details of the lease payables are as follows:

Lease payables

	Present value of the minimum lease payments	
	30.09.2019	**31.12.2018**
Within one year	13,716,242	-
Minus: future financial expenses	-	-
Present value of the lease liability	**13,716,242**	**-**
Two years or more	20,640,356	-
Minus: future financial expenses	-	-
Present value of the lease liability	**20,640,356**	**-**
Total Lease Liability	**34,356,598**	

The Company's lease liabilities means the present value of the future payables of the liabilities for stores, vehicles and buildings leased from third parties during the useful life of the asset.

The redemption schedule of borrowings as at 30 September 2019 and 31 December 2018 is as follows:

	30 September 2019	**31 December 2018**
Up to 3 months	74,643,147	49,012,542
3-12 months	150,598,781	165,441,939
1-5 years	189,798,088	161,800,015
	415,040,016	**376,254,496**

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

5. DUE FROM AND DUE TO RELATED PARTIES

All transactions and balances with related parties within the Group intercompany profits, unrealized gains and losses are not included in this note has been eliminated from the records for the purpose of consolidation.

a) Trade receivables and payables due from related parties as at 30 September 2019 and 31 December 2018 are as follows:

	30 September 2019	31 December 2018
Due from related parties		
Doğtaş Germany GmbH	381,213	230,866
Doğtaş Bulgaria Eood	62,169	9,645
Real person shareholders	1,241,227	870,443
	1,684,609	**1,110,954**
Due to related parties		
Doğanlar Yatırım Holding A.Ş.	44,983,766	56,726,999
Other	252	-
	44,984,018	**56,726,999**

b) Rendered of goods and services to related parties and financial income from related parties for the year ended 30 September 2019 and 30 September 2019 are as follows:

	1 January - 30 September 2019	1 July -30 September 2019	1 January - 30 September 2018	1 July -30 September 2018
Services rendered				
Doğanlar Yatırım Holding A.Ş.	42,410	7,344	7,178	-
Other	16,033	7,952	17,032	4,155
	58,443	**15,296**	**24,210**	**4,155**

c) Purchase and of goods and services to related parties for the year ended 30 September 2019 and 30 September 2018 are as follows:

	1 January - 30 September 2019	1 July -30 September 2019	1 January - 30 September 2018	1 July -30 September 2018
Sales and services purchased				
Doğanlar Yatırım Holding A.Ş.	138,935	86,552	540,134	12,100
Korad Gayrimenkul Yatırım İnş. A.Ş.	42,748	15,468	-	-
Other	-	-	76,444	(177,314)
	181,683	**102,200**	**616,578**	**(165,214)**

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

5. DUE FROM AND DUE TO RELATED PARTIES (continued)

d) Key management compensation for the year ended 30 September 2019 and 2018 are as follows:

	30 September 2019	**30 September 2018**
Short term compensation and other rights	3,613,430	4,556,684
	3,613,430	**4,556,684**

The remunerations which are provided to Board of Directors and key management personnel (The Group has determined key management personnel as the chairman, members of the Board of Directors and general manager of the Company) during the periods ending 30 September 2019 and 30 September 2018 are short-term compensation and include salary, bonus, post-employment benefits and other payments. There are no post-employment benefits, other long-term benefits and share-based payments during the periods ended 30 September 2019 and 2018.

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

6. PROPERTY, PLANT AND EQUIPMENT

	Lands	Land improvements and buildings	Machinery, plant and equipment	Vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
Cost								
Opening balance, 1 January 2019	54,091,340	91,883,824	121,662,927	1,113,794	63,010,871	54,127,437	-	385,890,192
Additions	-	443,448	1,060,887	374,036	3,224,138	5,213,392	69,251	10,385,153
Transfers	-	(60,000)	60,000					
Disposals	-	(140,864)	-	-	(358,430)	(435,208)	-	(934,501)
Closing balance, 30 September 2019	**54,091,340**	**92,126,408**	**122,783,814**	**1,487,830**	**65,876,579**	**58,905,621**	**69,251**	**395,340,843**
Accumulated depreciation								
Opening balance, 1 January 2019	-	(22,918,874)	(47,617,180)	(1,113,794)	(40,208,285)	(24,968,906)	-	(136,827,039)
Charge of the year	-	(2,255,283)	(773,013)	(17,475)	(4,162,813)	(8,373,918)	-	(15,582,501)
Disposals	-	1,409	-	-	232,244	97,522	-	311,175
Closing balance, 30 September 2019	**-**	**(25,172,748)**	**(48,390,192)**	**(1,131,269)**	**(44,138,854)**	**(33,245,301)**	**-**	**(152,078,365)**
Net book value, 30 September 2019	**54,091,340**	**66,953,660**	**74,393,621**	**356,561**	**21,737,725**	**25,660,320**	**69,251**	**243,262,478**

Regarding to borrowings for financing activities, there is a mortgage on property, plant and equipment of the Group amounting to EUR 70,000,000 and TL 60,000,000.

As at 30 September 2019, total insurance amount over property, plant and equipment is TL 131,144,000 (31 December 2018: TL 136,444,125)

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

6. PROPERTY, PLANT AND EQUIPMENT (continued)

	Lands	Land improvements and buildings	Machinery, plant and equipment	Vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
Cost								
Opening balance, 1 January 2018	53,908,240	91,315,210	119,303,465	1,113,794	58,459,934	34,170,516	14,689,984	372,961,143
Additions	183,100	-	2,495,437	-	3,403,633	9,883,918	1,820,653	17,786,741
Transfers	-	-	-	-	-	2,878,935	(2,878,935)	-
Disposals	-	-	(120,021)	-	(216,238)	(4,568,528)	-	(4,904,788)
Closing balance, 30 September 2018	**54,091,340**	**91,315,210**	**121,678,880**	**1,113,794**	**61,647,329**	**42,364,840**	**13,631,702**	**385,843,096**
Accumulated depreciation								
Opening balance, 1 January 2018	-	(19,951,450)	(46,467,175)	(1,113,794)	(33,899,250)	(17,242,611)	-	(118,674,280)
Charge of the year	-	(2,226,835)	(949,087)	-	(5,584,130)	(6,095,945)	-	(14,855,997)
Disposals	-	-	120,021	-	73,617	1,269,219	-	1,462,857
Closing balance, 30 September 2018	**-**	**(22,178,285)**	**(47,296,241)**	**(1,113,794)**	**(39,409,763)**	**(22,069,337)**	**-**	**(132,067,420)**
Net book value, 30 September 2018	**54,091,340**	**69,136,925**	**74,382,640**	**--**	**22,237,566**	**20,295,503**	**13,631,702**	**253,775,676**

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

7. PROVISIONS, CONTINGENT AND CONTRACTED ASSETS AND LIABILITIES

Short-term provisions

As at 30 September 2019 and 31 December 2018 the details of short term provisions are as follows:

	30 September 2019	**31 December 2018**
Provision for warranty expenses	3,980,175	4,621,935
Provision for litigations	2,949,286	2,270,907
Other	641,760	-
	7,571,221	**6,892,842**

Long-term provisions

	30 September 2019	**31 December 2018**
Provision for warranty expenses	2,129,500	1,924,033
	2,129,500	**1,924,033**

Contingent assets and liabilities:
As at 30 September 2019 and 31 December 2018, the details of the guarantees received and given are as follows:

Guarantees given

	30 September 2019	**31 December 2018**
Mortgagee given (*)	492,852,000	481,960,000
Letters of guarantee given to official institutions (**)	165,567,752	167,712,846
Letter of guarantees given to buyers	1,484,991	4,191,872
Letter of guarantees given to sellers	267,286	272,520
	660,172,029	**654,137,238**

(*) Mortgages on property, plant and equipment are related to loans used for purchasing and financing purposes.
(**) Consists of letters of guarantees given to Türkiye İhracat Kredi Bankası A.Ş. with respect to loans used mainly.

Guarantees received

	30 September 2019	**31 December 2018**
Letters of guarantee from dealers	60,438,313	65,681,717
Mortgages from domestic dealers	24,257,439	18,055,000
Mortgages from foreign dealers	7,160,524	13,092,934
	91,901,276	**96,829,651**

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

7. PROVISIONS, CONTINGENT AND CONTRACTED ASSETS AND LIABILITIES (continued)

As at 30 September 2019 and 31 December 2018, the tables of the Group's guarantees, pledges and mortgages (GPMs) are as follows:

GPMs issued by the Company	**30 September 2019**	**31 December 2018**
A Total amount of GPM's given on behalf of own legal entity	660,172,029	654,137,238
B. Total amount of GPMs given in favor of the subsidiaries included in the scope of consolidation	-	-
C. Total amount of GPM's given to third parties for the purpose of carrying out ordinary commercial activities	-	-
D. Total amount of other GPM	-	-
i. Total amount of GPM's given in favor of main shareholder	-	-
ii. Total amount of GPM given in favor of other group companies not in the scope of Article B and C	-	-
iii. Total amount of GPM's given in favor of third parties not covered by Article C.	-	-
Total	**660,172,029**	**654,137,238**

The total number of ordinary shares of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. is 9,628,488,350 with a par value of TL 0.01 and all was pledged due to the Group's borrowings as at 30 September 2019. (The total number of ordinary shares of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. is 9,628,488,350 with a par value of TL 0,01 and all was pledged due to the Group's borrowings as at 31 December 2018.)

As at 30 September 2019 total insurance on property, plant and equipment and inventories is TL 131,144,000 and TL 123,156,483 respectively (31 December 2018: TL 136,444,125 and TL 169,010,000 respectively)

As at 30 September 2019, the Group has net off cheques amounting to TL 91.827.286 by deducting from its debts (31 December 2018: TL 94,036,527).

Operating leases

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

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

8. TAX ASSETS AND LIABILITIES

The provisions necessary for the Group's estimated tax liabilities for the current period were reserved in the consolidated financial statement.

	30 September 2019	**31 December 2018**
Corporate tax calculated	-	-
Prepaid taxes (-)	(679,419)	(654,410)
Current income tax assets	**(679,419)**	**(654,410)**

Taxation on income in the consolidated statement of profit or loss are as follows:

	30 September 2019	**30 September 2018**
Deferred tax benefit/ (expense)	10,566,879	20,102,692
Tax benefit/ (expense)	**10,566,879**	**20,102,692**

Corporate tax

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

In Turkey, corporate tax rate is 22% as at 30 September 2019. Corporate income tax is calculated on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes (carryforwad losses, if any, and if utilized exemptions for investment incentives.

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%.

Advance taxes are calculated and accrued quarterly in Turkey. Losses may be carried over for no longer than five (5) years provided that they are deducted from the taxable profit to be made in the coming years. However, losses incurred are not deducted retroactively from the profits of previous years.

There is not a fixed and definite reconciliation procedure in place for tax assessment in Turkey. Companies prepare their tax returns from April 1 to April 30 of the year following the account closure period of the relevant year. The Tax Administration may review such tax returns and accounting records that form the basis thereof within five (5) years.

9. TAX ASSETS AND LIABILITIES (continued)

Corporate tax (continued)

The corporate tax rate applies to the tax base that is found by adding the expenditures that are not permitted to be deducted as per the tax laws to the trade earnings of companies, and deducting the exemptions (e.g. affiliate earnings exemption) and other deductions (such as R&D deduction). No further tax is paid if the profit is not distributed.

Dividends (premiums) that are paid to limited taxpayer corporations earning income through a business or their permanent representative in Turkey, or to resident corporations in Turkey are not subject to withholding tax. Other dividend payments to persons and corporations are subject to a 15-percent withholding tax. Addition of profit to capital is not counted as a dividend distribution.

There are many exemptions for corporations in the Corporate Tax Law. Of these exemptions, the ones that are related to the Group are detailed below:
The law no. 5479 dated March 30, 2006, ended the investment allowance exemption,
which had been implemented for many years and calculated as 40 percent of the purchases of fixed assets exceeding a certain amount by the last taxpayers. However, in accordance with the aforementioned law and the provisional Article 69 added to the Income Tax Law, the income and corporate taxpayers can deduct the amounts of investment allowance exemption available as of December 31, 2005, which they were unable to deduct from their 2005 earnings, and the following investments and amounts from their earnings only for the years 2006, 2007 and 2008 under the provisions of the legislation at the date concerned (including provisions on tax rate):

a) The investments to be made after January 1, 2006, under the document for investments initiated under Articles 1–6 of the Income Tax Law No. 193 before being repealed by Law No. 4842 dated April 9, 2003, within the scope of investment incentive certificates issued for the applications made before April 24, 2003,

b) Under the abrogated Article 19 of the Income Tax Law No. 193, regarding the investments initiated before January 1, 2006, the investment allowance exception amounts to be calculated in accordance with the provisions of the regulations in force as of December 31, 2005, due to investments made after this date, which form an economic and technical integrity with the investment.

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

8. TAX ASSETS AND LIABILITIES (continued)

Deferred tax :

The Group calculates the income tax assets and liabilities taking into consideration the effects of the temporary differences arising from the differences of assessing the financial statement items by TAS preparation principles for financial statements and legal financial statements. Such temporary differences usually result in the recognition of income and expenses in different reporting periods as per the relevant tax laws and the preparation principles of financial statements set out in TAS.

As at 30 September 2019 and 31 December 2018 the breakdown of cumulative temporary differences and the resulting deferred income tax assets/liabilities provided using enacted tax rates are as follows:

	Temporary differences		Deferred income tax assets / (liabilities)	
	30 September 2019	**31 December 2018**	**30 September 2019**	**31 December 2018**
Carryforward tax losses	132,953,288	114,207,477	26,590,658	22,841,495
Investment incentives	14,965,000	14,695,000	2,993,000	2,993,000
Provision for doubtful receivables	7,659,186	8,952,039	1,685,021	1,969,449
Provision for unused vacation	3,803,709	3,800,626	836,816	836,138
Provision for warranty	6,109,675	6,545,968	1,221,935	1,309,194
Provision for employment termination benefit	2,545,291	2,531,099	509,058	506,220
Provision for litigations	2,949,287	2,270,907	589,857	454,181
Other Assets and Liabilities	18,777,522	98,376	4,131,055	21,643
Tangible and intangible assets	(152,123,439)	(165,557,060)	(30,424,668)	(33,111,412)
Cut-off effect	(6,792,806)	(7,330,163)	(1,358,561)	(1,612,636)
Deferred tax asset/ (liabilities), net			**6,774,151**	**(3,792,728)**

Carry forward tax losses:

Deferred income tax assets are recognized for tax losses carried forward to extent that the realization of the related tax benefit through the future taxable profits is probable. If tax advantage is probable, deferred tax asset is calculated from unused past year financial losses and investment allowance exceptions.

As at 30 September 2019, the Group has recognized deferred income tax assets amounting to TL 132,953,288 (31 December 2018: TL 114,207,477) over the carry forward tax losses amounting to TL 26,590,658 TL (31 December 2018: TL 22,841,495) in the consolidated financial statements

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

	30 September 2019	**31 December 2018**
2020	-	186,568
2021	20,688,902	20,688,902
2023	92,307,775	93,332,007
2024	19,956,611	-
	132,953,288	**114,207,477**

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

8. TAX ASSETS AND LIABILITIES (continued)

Deferred tax (continued)

Movements in deferred income taxes are as follows:

	30.09.2019	**30.09.2018**
Deferred Tax Asset/(Liability) at the Beginning of the Period	(3,792,728)	(17,284,790)
Deferred Tax Income/(Expense)	10,566,879	7,596,942
TFRS 9 Effect for the Previous Period	-	796,429
Deferred Tax Asset/(Liability) at the end of the Period	**6,774,151**	**(8,891,419)**

8. EXPENSES BY NATURE

Expenditures nine the nine-month interim accounting periods that ended on September 30, 2018, and September 30, 2019, by their nature, are as follows:

Selling, Marketing and Distribution Expenses	**1 January - 30 September 2019**	**1 July -30 September 2019**	**1 January - 30 September 2018**	**1 July - 30 September 2018**
Depreciation and amortization expenses	19,848,016	7,196,341	12,517,853	4,383,092
Transportation expenses	18,419,706	6,780,734	22,341,806	8,872,407
Personnel expenses	14,120,553	5,020,299	18,786,610	5,976,645
Advertising expenses	13,649,650	4,752,248	15,918,441	2,514,295
Rent expenses	2,989,239	1,253,401	14,301,545	3,903,260
Energy, water and fuel expenses	1,244,466	447,725	1,153,708	419,506
Consultancy expenses	1,004,243	291,922	1,558,039	494,378
Travel expenses	942,324	383,090	1,073,658	499,874
Maintenance and repair expenses	426,370	122,883	351,467	80,275
Representation expenses	91,924	35,458	151,401	33,158
Other	11,369,586	5,092,883	4,660,916	2,664,995
	84,106,077	**31,376,934**	**92,815,444**	**29,841,885**

General and Administrative Expenses	**1 January - 30 September 2019**	**1 July -30 September 2019**	**1 January - 30 September 2018**	**1 July - 30 September 2018**
Personnel expenses	7,905,012	2,443,522	10,163,201	3,774,792
Consultancy expenses	3,463,765	1,152,195	3,179,446	826,371
Depreciation and amortization expenses	1,856,300	569,683	1,197,232	413,392
Rent expenses	1,255,719	415,170	1,280,837	295,796
Energy, water and fuel expenses	604,185	177,066	650,054	148,224
Travel expenses	598,908	185,126	699,155	8,374
Food expenses	401,201	119,048	798,858	156,357
Office expenses	379,398	157,874	1,043,303	217,411
Contribution expenses	137,290	28,955	220,249	41,620
Representation expenses	160,877	65,823	174,289	48,301
Other	1,580,765	610,498	5,101,900	3,384,006
	18,334,419	**5,924,959**	**24,508,524**	**9,314,644**

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

9. EXPENSES BY NATURE (continued)

Research and Development Expenses	**1 January -30 September 2019**	**1 July -30 September 2019**	**1 January -30 September 2018**	**1 July -30 September 2018**
Personnel expenses	2,079,869	723,311	2,003,159	737,105
Depreciation and amortization expenses	170,300	53,764	181,638	57,153
Food expenses	121,158	42,078	56,590	17,159
Rent expenses	109,707	37,900	75,361	34,703
Other	324,039	52,430	102,184	26,732
	2,805,072	**909,483**	**2,418,932**	**872,852**

The functional classification of personnel expenses is as follows:

Personnel Expenses	**1 January -30 September 2019**	**1 July - 30 September 2019**	**1 January - 30 September 2018**	**1 July - 30 September 2018**
Cost of sales	40,668,528	14,396,027	32,777,548	12,215,946
Selling, marketing and distribution expenses	14,120,553	5,020,299	18,786,610	5,976,645
General and administrative expenses	7,905,012	2,443,523	10,163,201	3,774,792
Research and development expenses	2,079,869	723,311	2,003,159	737,105
	64,773,961	**22,583,160**	**63,730,518**	**22,704,488**

10. OTHER OPERATING INCOME / (EXPENSES)

Other real operating income and expenditures for the nine-month interim accounting periods that ended on September 30, 2018, and September 30, 2019, are as follows:

	1 January -30 September 2019	**1 July - 30 September 2019**	**1 January -30 September 2018**	**1 July - 30 September 2018**
Foreign exchange income	32,356,122	14,693,668	69,622,078	53,449,000
Provisions no longer required	542,161	979	207,849	(153,380)
Rediscount income	-	-	6,925,365	5,789,302
Other	5,491,345	3,827,777	3,854,039	931,511
Other operating income	**38,389,628**	**18,522,424**	**80,609,331**	**60,016,433**
Foreign exchange losses	(31.744.418)	(23.570.098)	(56.776.067)	(44.519.327)
Rediscount expenses	(6.659.339)	(1.238.978)	(111.727)	(111.727)
Provision expenses for doubtful receivables	(1.963.618)	-	-	-
Other	(2.977.600)	6.509.313	(13.300.611)	(10.153.912)
Other operating expenses	**(43.344.975)**	**(18.299.763)**	**(70.188.405)**	**(54.784.966)**

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

11. FINANCE INCOME/ (EXPENSES)

Expenditures for the nine-mont interim accounting periods that ended on September 30, 2018, and September 30, 2019, are as follows:

	1 January -30 September 2019	**1 July – 30 September 2019**	**1 January -30 September 2018**	**1 July -30 September 2018**
Foreign exchange income	51,861,028	35,863,088	69,481,857	57,063,845
Interest income	1,808	-	35,531	261
Finance income	**51,862,836**	**35,863,088**	**69,517,388**	**57,064,106**
Foreign exchange losses	(58,223,297)	(23,679,986)	(151,460,049)	(111,655,753)
Interest expenses	(53,491,755)	(20,779,373)	(46,009,328)	(23,703,274)
Other	-	163	-	-
Finance expense	**(111,715,052)**	**(44,459,196)**	**(197,469,377)**	**(135,359,027)**
Finance expense, net	**(59,852,216)**	**(8596,108)**	**(127,951,889)**	**(78,294,921)**

12. FINANCIAL RISK MANAGEMENT

Credit risk

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

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

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

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

12. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

	Receivables					
	Trade receivables		Other receivables			
30 September 2019	**Related parties**	**Third parties**	**Related parties**	**Third parties**	**Cash and cash equivalents and credit card receivables**	**Other**
Maximum credit risk exposure at reporting date (A+B+C+D+E)	**1,684,609**	**126,938,037**	-	**3,444,273**	**1,084,719**	-
- Portion of maximum risk covered by guarantees	-	-	-	-	-	-
A. Carrying value of financial assets that are neither past due nor impaired	1,684,609	100,387,081	-	3,444,273	1,084,719	-
B. Carrying value of financial assets that the terms renegotiated, otherwise past due or impaired	-	-	-	-	-	-
C. Carrying value of financial assets that are past due but not impaired	-	26,550,956	-	-	-	-
-Portion under guarantee with collateral	-	-	-	-	-	-
D. Carrying value of impaired assets	-	-	-	-	-	-
-Past due (gross carrying amount)	-	24,350,962	-	-	-	-
-Impairment (-)	-	(24,350,962)	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-

	Receivables					
	Trade receivables		Other receivables			
31 December 2018	**Related parties**	**Third parties**	**Related parties**	**Third parties**	**Cash and cash equivalents and credit card receivables**	**Other**
Maximum credit risk exposure at reporting date (A+B+C+D+E)	**1,110,954**	**94,804,319**	-	**5,334,946**	**3,558,733**	-
- Portion of maximum risk covered by guarantees	-	-	-	-	-	-
A. Carrying value of financial assets that are neither past due nor impaired	-	51,528,353	-	5,334,946	3,558,733	-
B. Carrying value of financial assets that the terms renegotiated, otherwise past due or impaired	-	-	-	-	-	-
C. Carrying value of financial assets that are past due but not impaired	1,110,954	43,275,966	-	-	-	-
Portion under guarantee with collateral	-	-	-	-	-	-
D. Carrying value of impaired assets	-	-	-	-	-	-
- Past due (gross carrying amount)	-	23,475,101	-	-	-	-
- Impairment (-)	-	(23,475,101)	-	-	-	-
E. Off-balance sheet items with credit risk	-	-	-	-	-	-

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

12. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

As at 30 September 2019 and 31 December 2018 aging analysis of past due but not impaired related and third party trade receivables are as follows.

	30 September 2019	**31 December 2018**
Less than 30 days	5,185,825	7,545,116
30 - 119 days	8,469,150	8,025,932
120 - 179 days	1,836,409	1,151,026
180 days and over	31,641,120	26,553,892
	47,132,504	**43,275,966**

Liquidity risk

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

Contractual cash flows of the financial liabilities of the Group as at 30 September 2019 and 31 December 2018 are as follows:

30 September 2019	**Carrying amount**	**Contractual cash flows (I+II+III+IV)**	**Less than 3 months (I)**	**3-12 months (II)**	**1-5 years (III)**	**More than 5 years (IV))**
Non-derivative financial liabilities						
Borrowings	380,683,418	380,683,418	74,643,147	136,882,539	169,152,732	-
Trade payables	153,531,767	153,531,767	153,531,767	-	-	-
Other payables (*)	46,173,449	46,173,449	46,173,449	-	-	-
Total	**580,388,634**	**580,388,634**	**274,348,363**	**136,882,539**	**169,152,732**	**-**

31 December 2018	**Carrying amount**	**Contractual cash flows (I+II+III+IV)**	**Less than 3 months (I)**	**3-12 months (II)**	**1-5 years (III))**	**More than 5 years (IV)**
Non-derivative financial liabilities						
Borrowings	376,254,496	405,991,691	50,994,291	164,346,060	190,651,340	-
Trade payables	139,747,411	139,747,411	139,747,411	-	-	-
Other payables (*)	58,581,367	58,581,367	57,870,163	-	711,204	-
Total	**574,583,274**	**604,320,489**	**248,611,865**	**164,346,060**	**191,362,544**	**-**

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

12. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk

The Group is exposed to exchange rate risk arising from the exchange rate changes due to translation of foreign currency denominated assets or liabilities to TL. The foreign exchange rate risk is monitored by analyzing the foreign exchange position.

Foreign currency denominated assets and liabilities as at 30 September 2019 and 31 December 2018 is set out in the table below:

	30 September 2019	31 December 2018
USD	5.6591	5.2609
EUR	6.1836	6.0280

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

Currency position

As at 30 September 2019 and 31 December 2018 assets and liabilities denominated in foreign currency held by the Group are as follows:

	30 September 2019	31 December 2018
Assets	49,278,786	44,345,742
Liabilities	(224,980,896)	(229,312,602)
Net foreign currency position	**(175,702,109)**	**(184,966,859)**

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

12. FINANCIAL RISK MANAGEMENT (continued)

Market risk

Currency position

	30 September 2019			31 December 2018		
	TL equivalent	**USD**	**EUR**	**TL equivalent**	**USD**	**EUR**
1. Trade receivables	49,246,681	2,667,837	5,522,531	44,046,364	2,205,140	5,382,439
2a. Monetary financial assets, (cash and banks account included)	32,105	1,978	3,382	299,378	18,050	33,911
2b. Non-monetary financial assets	-	-	-	-	-	-
3. Other	-	-	-	-	-	-
4. Current assets (1+2+3)	**49,278,786**	**2,669,815**	**5,525,913**	**44,345,742**	**2,223,190**	**5,416,350**
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)	**49,278,786**	**2,669,815**	**5,525,913**	**44,345,742**	**2,223,190**	**5,416,350**
10. Trade payables	(2,253,246)	(175,806)	(203,497)	(13,025,186)	-	(2,160,781)
11. Financial liabilities	(14,067,442)	-	(2,274,960)	(87,829,140)	-	(14,570,196)
12a. Other monetary liabilities	(2,610,518)	(369,383)	(84,116)	(2,092,372)	(296,468)	(88,368)
12b. Other non-monetary liabilities	-	-	-	-	-	-
13. Current liabilities (10+11+12)	**(18,931,206)**	**(545,189)**	**(2,562,573)**	**(102,946,699)**	**(296,468)**	**(16,819,345)**
14. Trade payables	-	-	-	-	-	-
15. Financial liabilities	(206,049,689)	(2,500,000)	(31,034,016)	(126,365,903)	-	(20,963,156)
16 a. Other monetary liabilities	-	-	-	-	-	-
16 b. Other non-monetary liabilities	-	-	-	-	-	-
17. Long-term liabilities (14+15+16)	**(206,049,689)**	**(2,500,000)**	**(31,034,016)**	**(126,365,903)**	**-**	**(20,963,156)**
18. Total liabilities (13+17)	**(224,980,896)**	**(3,045,189)**	**(33,596,589)**	**(229,312,602)**	**(296,468)**	**(37,782,501)**
19. Net assets of off balance sheet derivative items (liability) position (19a-19b)	-	-	-	-	-	-
19a. Total amount of assets hedged	-	-	-	-	-	-
19b. Total amount of liabilities hedged	-	-	-	-	-	-
20. Net foreign monetary assets/(liabilities) position (9+18+19)	(175,702,109)	(375,374)	(28,070,676)	(184,966,859)	1,926,723	(32,366,150)
21. Net foreign currency asset / (liability) position of monetary items (=1+2a+3+5+6a+10+11+12a+14+15+16a)	(175,702,109)	(375,374)	(28,070,676)	(184,966,859)	1,926,723	(32,366,150)
22. Fair value of derivative instruments used in foreign currency hedge	-	-	-	-	-	-
23. Export	**51,162,506**	**5,814,670**	**2,750,646**	**70,862,222**	**6,532,997**	**6,053,878**
24. Import	**407,148**	**-**	**63,719**	**5,899,546**	**15,045**	**965,560**

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

12. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Currency risk (continued)

The Group's mainly currency position consists of bank borrowings and trade payables. Foreign currency denominated borrowings are stated in Note 5.

The Group's profit before tax, when all other variables remain constant, (due to changes in monetary assets and liabilities) USD and EUR exchange rates and changes in sensitivity table is as follows:

30 September 2019	**Profit/Loss**	
	Appreciation of foreign currency	**Depreciation of foreign currency**
Assumption of devaluation/appreciation by 10% of USD against TL		
1- Net USD asset / liability	(212,428)	212,428
2- USD risk averse portion (-)	-	-
3- USD net effect (1+2)	**(212,428)**	**212,428**
Assumption of devaluation/appreciation by 10% of EUR against TL:		
4- Net EUR asset / liability	(17,357,783)	17,357,783
5- EUR risk averse portion (-)	-	-
6- EUR net effect (4+5)	**(17,357,783)**	**17,357,783**
Total (3+6)	**(17,570,211)**	**17,570,211**

31 December 2018	**Profit/Loss**	
	Appreciation of foreign currency	**Depreciation of foreign currency**
Assumption of devaluation/appreciation by 10% of USD against TL:		
1- Net USD asset / liability	1,013,629	(1,013,629)
2- USD risk averse portion (-)	-	-
3- USD net effect (1+2)	**1,013,629**	**(1,013,629)**
Assumption of devaluation/appreciation by 10% of EUR against TL:		
4- Net EUR asset / liability	(19,510,315)	19,510,315
5- EUR risk averse portion (-)	-	-
6- EUR net effect (4+5)	**(19,510,315)**	**19,510,315**
Total (3+6)	**(18,496,686)**	**18,496,686**

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

13. ADDITIONAL DISCLOSURES THAT ARE RQUIRED UNDER TFRS

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

	30 September 2019	30 September 2018
Net profit / (loss) for the period	(20,301,375)	(90,798,559)
Tax income / expense	(10,566,879)	(20,102,692)
Financial income	(51,862,836)	(69,517,388)
Financial expense	111,725,052	197,469,377
Depreciation and amortization expenses	23,995,648	17,215,225
Provision for unused vacation liabilities	-	589,918
EBITDA	**52,898,610**	**34,855,881**

14. EARNINGS / (LOSS) PER SHARE

	1 January - 30 September 2019	1 January - 30 September 2018
Weighted average number of shares in issue	26,906,976,700	20,906,976,700
Net income or (loss) attributable to the owners of the parent	(20,301,375)	(90,798,559)
Earnings / (Losses) per share	**(0.0008)**	**(0.005)**

15. EVENTS AFTER THE REPORTING PERIOD

Between September 30, 2019 and August 9, 2019, the date that the financial statements were authorized, Hüseyin Doğan Türkmen resigned as board member on July 26, 2019. İsmail Doğan was appointed to fill the vacated position, in accordance with Article 363 of the Turkish Commercial Code. His appointment shall be proposed to the approval of the General Assembly, at the first general meeting of shareholders.

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