

**Dođtař Kelebek Mobilya  
Sanayi ve Ticaret A.ř. and Its Subsidiaries**

Convenience Translation into English  
of the Consolidated Financial Statements  
As at and for the Year Ended  
31 December 2018  
With Independent Auditor's Report

(Originally issued in Turkish)

11 March 2019

This report includes 6 pages of Independent Auditor's Report and 68 pages of consolidated financial statements and explanatory notes on the consolidated financial statements.

## **Independent Auditor’s Report**

To the General Assembly of Dođtař Kelebek Mobilya Sanayi ve Ticaret A.ř.,

### **A) Audit of the Consolidated Financial Statements**

#### *Qualified Opinion*

We have audited the consolidated financial statements of Dođtař Kelebek Mobilya Sanayi ve Ticaret Anonim řirketi (“the Company”) and its subsidiaries (together will be referred to as “the Group”), which comprise the statement of consolidated financial position as at 31 December 2018, the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the first and second matters and effect of third matter in “*Basis for the Qualified Opinion*”, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Turkish Financial Reporting Standards (“TFRSs”).

#### *Basis For Qualified Opinion*

As explained in Note 22 to the accompanying consolidated financial statements, the consolidated statement of financial position as at 31 December 2018 consists of trade receivables from third parties amounting to TL 26,313,182 which were occurred as a result of the Group’s operations and their due dates considerably exceeded 180 days and over. Furthermore, the Group management has recognized foreign exchange gain amounting to TL 4,906,186 in other operating income for the period 1 January - 31 December 2018, due to the translation of foreign currency denominated trade receivables to TL, which their due dates considerably exceeded 180 days and over. We were unable to perform sufficient audit procedures on which to determine whether there is any impairment of such balances. As a result, we were unable to determine whether adjustments were necessary in respect of the recoverability of this amount.

As at 31 December 2018 the Group has non-moving inventory in the consolidated statement of financial position amounting to TL 27,293,705 representing returns from its 2017 sales. We were unable to obtain sufficient audit evidence to assess whether there is any impairment in the value of the dead stocks concerned. Accordingly, it is not possible to determine whether any adjustment with respect to the recoverability of this amount is necessary.

Group management has assessed that Dođtař Holland BV, Dođtař Bulgaria Eood and Dođtař Germany GmbH should be classified as subsidiaries that are not material to the consolidated financial statements and, as such, have been classified as available-for-sale financial assets in the consolidated financial statements. As available-for-sale financial assets amounting to TL 9,469,958, accounted for at cost as per TFRS 9 "Financial Instruments " in the financial statements as at 31 December 2018, these assets have displayed limited movement and due to their total net asset values being uncovered, we have formed an opinion that for the total carrying value of these financial assets, a provision against impairment in the opening consolidated statement of financial position as at 1 January 2015, is required to be set aside. Accordingly, had the Group recognized the provision for impairment in the consolidated financial statements, its prior years' losses would have been higher by TL 9,469,958.

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

*Key Audit Matters*

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

Revenue recognition and first time application of TFRS 15

Refer to Note 2.5 to the consolidated financial statements for summary of significant accounting policies and significant accounting assessments, estimates and assumptions for revenue recognition and first time application of TFRS 15.

<b><u>The key audit matter</u></b>	<b><u>How the matter was addressed in our audit</u></b>
<p>The Group’s revenue is primarily generated from sale of furniture products.</p> <p>Revenue is recognized when the control of the products sold is transferred to the customers and the performance obligation is fulfilled.</p> <p>Recognition of revenue for the accounting period in which the product is sold depends on an appropriate assessment of whether the product is associated with a sales contract.</p> <p>Recognition of revenue is designated as a key audit matter, since significant contractual obligations are required to be reflected in the financial statements in the period of the revenue recognized due to the complexity of the conditions in the commercial contracts</p> <p>The Group, has adopted TFRS 15 “Revenue From Customer Contracts” as at 1 January 2018. The comparative financial statements for the year 2017 has not been restated since cumulative effect method has been used as TFRS 15 allows</p> <p>TFRS 15 determines when and at what amount of revenue is recognized; It provides a comprehensive framework for the terms of transfer of control over products and services to</p>	<p>We have performed the following audit procedures to be responsive to this area:</p> <ul style="list-style-type: none"> <li>- Evaluation of the effectiveness of key internal controls for accounting of revenue in the consolidated financial statements.</li> <li>- Examination of transfer of risk and rewards through sales documents obtained for selected sample sales transactions and evaluation of appropriateness of revenue recognition in the appropriate financial reporting period in accordance with TFRS 15.</li> <li>- Evaluating the timing of revenue recognition for the different shipment arrangements by examining the terms of trade and shipping conditions in the contracts made with customers.</li> <li>- Verifying trade receivable balances of third parties by obtaining confirmation letters for selected samples and reconciling to the financial statements.</li> <li>- Performing analytical procedures to determine the existence of unusual transactions.</li> </ul>

<p>the buyer, based on the timing of the seller's performance obligations. Therefore, the first time implementation of TFRS 15 was a focus area in our audit.</p>	<ul style="list-style-type: none"> <li>- Testing of the subsequent sales returns transactions after the reporting period of financial statements whether they are accounted for in the appropriate financial reporting period by selecting the samples from subsequent sales returns after the reporting period and using substantive testing procedures.</li> <li>- Evaluation of the journal entries that the Group has accounted for during the year.</li> </ul> <p>Regarding the first implementation of TFRS 15:</p> <ul style="list-style-type: none"> <li>- Understanding the Group's new accounting policies, assessing their conformity and documenting the results</li> <li>- Evaluation of the suitability of the methods used to determine the effect of the first time implementation</li> <li>- Evaluation of the Group's disclosures regarding the revenue in the consolidated financial statements in accordance with the new disclosure requirements.</li> <li>- Evaluating the completeness and accuracy of the accounting policies and the relevant disclosures in terms of components to be obtained in the current period by analyzing the existing contracts with the customers.</li> </ul>
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*Assessment of the financial position of the Company as to whether the Company's capital has remained unrequited or whether it has been in debt*

Refer to Notes 2.6 and 25 to the consolidated financial statements for the details of estimations and judgements for financial adequacy.

<p><b><u>The key audit matter</u></b></p> <p>There are certain obligations if Turkish Commercial Code (“TCC”) numbered 6102 regarding to financial adequacy of the Group.</p> <p>The major assumption for assessing whether the Group's capital is unrequited or not in debt is the principal determinant of the estimated shareholders, equity. Foreign currency losses arising from unrealised currency losses originated from borrowings denominated in foreign currency are accounted as intangible assets of the Group. The value of the brand is expected to be profitable in the future.</p>	<p><b><u>How the matter was addressed in our audit</u></b></p> <p>We have performed the following audit procedures to be responsive to this area:</p> <ul style="list-style-type: none"> <li>- Evaluation of significant estimates and assumptions used by the Group management in determining the fair value of intangible assets in the special purpose financial statements prepared in accordance with Article 376 of TCC in accordance with the CMB's decision dated 10 April 2014 and numbered 11/352 and evaluation of unrealized foreign exchange differences calculations.</li> </ul>
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<p>The calculations has ben made for the fair value determination of the trademark and the calculations supporting the assessment of the expected profitability in the future by the Group management are based on the estimations of the management's future performance and high level of judgment.</p>	<p>- Assesment of the assumptions used by the Group management in the estimation of future performance and the appropriateness of the significant accounting policies used in the preparation of the financial statements</p>
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#### *Other Matter*

The consolidated financial statements of the Group as at and for the year ended 31 December 2017, were audited by another auditor who expressed an qualified opinion regarding to impairment of trade receivables aged over 180 days, impairment of non-moving inventory items nad impairment on financial investments measured in its cost value on 9 March 2018.

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

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

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

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

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

Responsibilities of the independent auditors in an audit are as follows:

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

## **B) Other Legal and Regulatory Requirements**

1) Pursuant to the fourth paragraph of Article 398 of Turkish Commercial Code (“TCC”) no. 6102; Auditors’ Report on System and Committee of Early Identification of Risks is presented to the Board of Directors of the Group on 11 March 2019.

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

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

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

Işıl Keser  
Partner  
11 March 2019  
İstanbul, Türkiye

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**DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş. and ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2018**  
**(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)**

<b>Assets</b>	<i>Notes</i>	<b>Audited 31 December 2018</b>	<b>Audited 31 December 2017</b>
<b>Current Assets</b>		<b>354,119,357</b>	<b>370,705,981</b>
Cash and cash equivalents	3	3,566,888	3,363,130
Trade receivables	5	95,915,273	110,498,983
- Trade receivables from related parties	6	1,110,954	4,615,348
- Trade receivables from third parties		94,804,319	105,883,635
Other receivables	7	2,872,979	3,604,693
- Other receivables from third parties		2,872,979	3,604,693
Inventories	8	212,208,688	187,720,242
Prepayments	10	31,668,883	51,219,612
Current tax assets	21	654,410	205,596
Other current assets	9	6,741,036	13,602,525
		<b>353,628,157</b>	<b>370,214,781</b>
Assets held for sale		491,200	491,200
<b>Non-current assets</b>		<b>283,263,188</b>	<b>288,973,770</b>
Other receivables	7	2,461,967	1,240,085
- Other receivables from third parties		2,461,967	1,240,085
Financial investments	11	9,469,958	9,469,958
Investment properties		25,214	54,052
Property, plant and equipment	12	249,063,153	254,286,863
Intangible assets	13	22,242,896	23,286,776
Prepayments		--	636,036
<b>Total Assets</b>		<b>637,382,545</b>	<b>659,679,751</b>

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

**DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş. and ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2018**  
**(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)**

<b>Liabilities</b>	<i>Notes</i>	<b>Audited 31 December 2018</b>	<b>Audited 31 December 2017</b>
<b>Current Liabilities</b>		<b>470,311,426</b>	<b>432,493,281</b>
Short-term borrowings	4	94,575,077	81,098,235
Short-term portion of long term borrowings	4	119,879,404	58,224,451
Trade payables	5	139,747,411	228,199,406
- <i>Trade payables to third parties</i>		<i>139,747,411</i>	<i>228,199,406</i>
Payables related to employee benefits	15	5,240,814	6,367,565
Other payables	7	57,870,163	13,177,377
- <i>Other payables to third parties</i>		<i>1,143,164</i>	<i>1,410,167</i>
- <i>Other payables to related parties</i>	6	<i>56,726,999</i>	<i>11,767,210</i>
Deferred revenue	10	42,094,258	36,995,393
Short-term provisions		10,693,468	8,307,952
- <i>Short-term employee benefits</i>	15	<i>3,800,626</i>	<i>3,711,822</i>
- <i>Other short-term provisions</i>	14	<i>6,892,842</i>	<i>4,596,130</i>
Other current liabilities		210,831	122,902
<b>Non-current Liabilities</b>		<b>170,759,079</b>	<b>137,996,248</b>
Long-term borrowings	4	161,800,015	115,772,275
Other payables		711,204	621,894
- <i>Other payables to third parties</i>		<i>711,204</i>	<i>621,894</i>
Deferred revenue		--	39,262
Long-term provisions		4,455,132	4,278,027
- <i>Long-term employee benefits</i>	15	<i>2,531,099</i>	<i>2,119,647</i>
- <i>Other long-term provisions</i>	14	<i>1,924,033</i>	<i>2,158,380</i>
Deferred tax liabilities	21	3,792,728	17,284,790
<b>Equity</b>		<b>(3,687,960)</b>	<b>89,190,222</b>
<b>Equity attributable to owners of the company</b>			
Share capital	16	209,069,767	209,069,767
Reverse merger capital differences	16	(159,069,767)	(159,069,767)
Share premiums	16	282,945	282,945
Treasury share (-)		(510,991)	(10,991)
Other comprehensive income / (expense) not to be reclassified to profit or loss		116,690,771	117,026,241
- <i>Increase on revaluation of property and equipment</i>	16	<i>115,492,865</i>	<i>115,492,865</i>
- <i>Actuarial gain arising from employee benefits</i>	16	<i>1,197,906</i>	<i>1,533,376</i>
Legal reserves	16	1,107,177	607,177
Accumulated losses		(82,038,854)	(93,971,564)
Profit/ (loss) for the period		(89,219,008)	15,256,414
<b>Total Liabilities and Equity</b>		<b>637,382,545</b>	<b>659,679,751</b>

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

**DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş. and ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

<b>Profit or loss</b>	<i>Notes</i>	<b>Audited</b>	<b>Audited</b>
		<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
Revenue	17	591,311,311	600,165,348
Cost of sales (-)	17	(420,347,269)	(376,535,779)
<b>Gross profit</b>		<b>170,964,042</b>	<b>223,629,569</b>
General administrative expenses (-)	18	(35,431,588)	(25,415,860)
Selling, marketing and distribution expenses (-)	18	(123,361,700)	(107,559,191)
Research and development expenses (-)	18	(2,857,259)	(3,560,040)
Other income from operating income	19	106,500,210	40,101,672
Other expense from operating expenses (-)	19	(97,668,719)	(32,597,448)
<b>Operating profit</b>		<b>18,144,986</b>	<b>94,598,702</b>
Income from investing activities		566,628	385,143
Impairment losses determined in accordance with TFRS 9	5	(883,244)	(1,397,953)
<b>Operating profit before financial expense</b>		<b>17,828,370</b>	<b>93,585,892</b>
Finance income	20	127,494,408	38,312,641
Finance expenses (-)	20	(247,153,550)	(110,982,335)
<b>Profit/ (loss) before tax from continuing operations</b>		<b>(101,830,772)</b>	<b>20,916,198</b>
<b>Taxation on income</b>			
- Deferred tax benefit /(expense)	21	12,611,764	(5,659,784)
<b>Profit/ (Loss) for the period</b>		<b>(89,219,008)</b>	<b>15,256,414</b>
Earnings/(Losses) per share		(0.0043)	0.0007
Diluted earnings / (losses)per share		(0.0043)	0.0007

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

**DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş. and ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

		<b>Audited</b>	<b>Audited</b>
		<b>1 January–</b>	<b>1 January–</b>
	<i>Notes</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Profit / (Loss) for the period</b>		<b>(89,219,008)</b>	<b>15,256,414</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Revaluation reserves		--	59,177,619
Defined benefit plans remeasurement fund	15	(419,338)	(417,732)
Deferred tax benefit or expenses that will not be reclassified to profit or loss	21	83,868	(10,738,476)
<b>Other comprehensive income, after tax</b>		<b>(335,470)</b>	<b>48,021,411</b>
<b>Total comprehensive income / (expense)</b>		<b>(89,554,478)</b>	<b>63,277,825</b>

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

**DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş. and ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

	Share capital	Share premiums	Treasury shares	Other comprehensive income that will not be reclassified to profit or loss		Legal reserves	Accumulated profit / losses		Total equity
				Remeasurement differences	Revaluation reserves		Accumulated Losses	Net profit / (loss) for the period	
<b>Balance at 1 January 2017</b>	<b>50,000,000</b>	<b>282,945</b>	<b>(10,991)</b>	<b>1,867,562</b>	<b>68,479,964</b>	<b>607,177</b>	<b>(55,666,145)</b>	<b>(39,648,115)</b>	<b>25,912,397</b>
Transfers	--	--	--	--	(1,342,696)	--	(38,305,419)	39,648,115	--
Total comprehensive income	--	--	--	(334,186)	48,355,597	--	--	15,256,414	<b>63,277,825</b>
<b>Balance at 31 December 2017</b>	<b>50,000,000</b>	<b>282,945</b>	<b>(10,991)</b>	<b>1,533,376</b>	<b>115,492,865</b>	<b>607,177</b>	<b>(93,971,564)</b>	<b>15,256,414</b>	<b>89,190,222</b>
<b>Balance at 1 January 2018</b>	<b>50,000,000</b>	<b>282,945</b>	<b>(10,991)</b>	<b>1,533,376</b>	<b>115,492,865</b>	<b>607,177</b>	<b>(93,971,564)</b>	<b>15,256,414</b>	<b>89,190,222</b>
Adjustment on initial application of IFRS 9, net of tax	--	--	--	--	--	--	(2,823,704)	--	(2,823,704)
<b>Restated balance at 1 January 2018</b>	<b>50,000,000</b>	<b>282,945</b>	<b>(10,991)</b>	<b>1,533,376</b>	<b>115,492,865</b>	<b>607,177</b>	<b>(96,795,268)</b>	<b>15,256,414</b>	<b>86,366,518</b>
Transfers	--	--	--	--	--	--	15,256,414	(15,256,414)	--
Increase / decrease due to redemption of shares	--	--	(500,000)	--	--	500,000	(500,000)	--	(500,000)
Total comprehensive income / (loss)	--	--	--	(335,470)	--	--	--	(89,219,008)	(89,554,478)
<b>Balance at 31 December 2018</b>	<b>50,000,000</b>	<b>282,945</b>	<b>(510,991)</b>	<b>1,197,906</b>	<b>115,492,865</b>	<b>1,107,177</b>	<b>(82,038,854)</b>	<b>(89,219,008)</b>	<b>(3,687,960)</b>

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

**DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş. and ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

		<b>Audited</b>	<b>Audited</b>
	<i>Notes</i>	<b>1 January - 31 December 2018</b>	<b>1 January - 31 December 2017</b>
<b>Profit/ (loss) for the period</b>		<b>(89,219,008)</b>	<b>15,256,414</b>
<b>Adjustments to reconcile net profit/ (loss) for the period</b>		<b>120,039,079</b>	<b>81,856,893</b>
Adjustments related to amortisation and depreciation	<i>18</i>	22,803,829	18,896,810
Adjustments related to provision for employment termination benefits	<i>15</i>	589,918	1,643,790
Adjustments related to provision for (reversal) of doubtful receivables	<i>5</i>	883,244	1,397,953
Adjustments related to provision for warranty	<i>14</i>	2,227,520	4,813,387
Adjustments related to reversal other provisions		651,658	101,341
Adjustments related to tax benefit/(expense)	<i>21</i>	(12,611,764)	5,659,784
Adjustments related to interest expenses	<i>20</i>	66,478,408	28,394,961
Adjustments related to interest income	<i>20</i>	(65,967)	--
Adjustments related to (gain)/loss disposal of tangible and intangible assets		(561,748)	(385,143)
Adjustments related to unrealized currency translation difference		39,643,981	21,334,010
<b>Changes in working capital</b>		<b>(72,684,628)</b>	<b>(31,695,765)</b>
Decrease/(increase) in trade receivables		8,974,190	(32,462,985)
Decrease/(increase) in other receivables related with operations		731,714	(13,150,630)
Increase in inventories		(24,488,446)	(45,310,026)
Decrease/(increase) in prepaid expenses		20,186,765	(32,031,710)
Decrease/(increase) in other current assets related with operations		6,861,489	(873,526)
Decrease in trade payables		(88,451,995)	109,771,220
Increase in payables for employment termination		(1,126,751)	1,563,679
Decrease/(increase) in other liabilities related with operations		(89,764)	150,631
Increase in deferred revenue		4,718,170	(19,352,418)
<b>Cash outflows for operations</b>		<b>(2,020,096)</b>	<b>(2,059,289)</b>
Payments for provisions related to employee benefits	<i>15</i>	(597,804)	(878,608)
Payments for other provisions	<i>14</i>	(973,478)	(1,180,681)
Taxes paid		(448,814)	--
<b>A, Cash outflows for operating activities</b>		<b>(43,884,653)</b>	<b>63,358,253</b>
Interest received	<i>20</i>	65,967	764,970
Cash outflows from purchases of tangible and intangible assets	<i>12,13</i>	(20,075,449)	(42,159,356)
Cash inflows from sales of tangible and intangible assets		4,100,958	385,143
<b>B, Cash outflows from investing activities</b>		<b>(15,908,524)</b>	<b>(41,009,243)</b>
Interest paid		(56,297,641)	(32,993,510)
Cash inflows from bank borrowings	<i>4</i>	234,132,264	228,560,138
Cash outflows due to the payments of bank borrowings	<i>4</i>	(162,797,477)	(227,057,504)
Cash inflows from related parties		44,959,789	11,767,210
<b>C, Cash outflows from financing activities</b>		<b>59,996,935</b>	<b>(19,723,666)</b>
<b>Net increase/(decrease) in cash and cash equivalents (A+B+C)</b>		<b>203,758</b>	<b>2,625,344</b>
<b>D, Cash and cash equivalents at the beginning of the period</b>	<i>3</i>	<b>3,363,130</b>	<b>737,786</b>
<b>Cash and cash equivalents at the end of the period (A+B+C+D)</b>	<i>3</i>	<b>3,566,888</b>	<b>3,363,130</b>

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

**DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş. and ITS SUBSIDIARIES**  
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**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 Rıfki 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 31 December 2018, 49.99% of its shares are open for trading. (31 December 2017: %49,99).

**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 31 December 2018 (31 December 2017: None).

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

The shareholding structure of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. as at 31 December 2018 and 31 December 2017 is as follows:

Subsidiaries	Registered Country	Nature of operation	Functional currency	Proportion of effective interest of the Company(%)	
				31 December 2018	31 December 2017
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 31 December 2018, the number of employees of the Company and its subsidiaries (collectively referred to as the "Group") is 1,275 (31 December 2017: 1,495).

The shareholding structure of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. as at 31 December 2018 and 31 December 2017 is as follows:

	31 December 2018		31 December 2017	
	%	TL	%	TL
Portion trading on Borsa Istanbul	49.99	104,534,884	49.99	104,534,884
Davut Doğan	7.68	16,047,503	7.68	16,047,503
Adnan Doğan	7.68	16,047,484	7.68	16,047,484
Şadan Doğan	7.68	16,047,474	7.68	16,047,474
İsmail Doğan	7.68	16,047,474	7.68	16,047,474
İlhan Doğan	7.68	16,047,474	7.68	16,047,474
Murat Doğan	7.68	16,047,474	7.68	16,047,474
Doğanlar Yatırım Holding A.Ş.	3.95	8,250,000	3.95	8,250,000
	<b>100.00</b>	<b>209,069,767</b>	<b>100.00</b>	<b>209,069,767</b>

As at 31 December 2018 and 31 December 2017, 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.



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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS**

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

**2.1 Basis of presentation of consolidated financial statements**

**a) Statement of compliance with Turkish Financial Reporting Standards (“TFRS”)**

The accompanying consolidated 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 consolidated 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.

Consolidated financial statements are presented in accordance with the illustrative financial statements published by CMB and TAS Taxonomy published by POA.

The Company and its Turkish subsidiaries maintain their books of account and prepare their statutory financial statements in accordance with accounting principles in the Turkish Commercial Code (“TCC”) and tax legislation. Subsidiaries that are registered in foreign countries maintain their books of account and prepare their statutory statements in accordance with the prevailing accounting principles in their registered countries.

The Group has initially adopted TFRS 15 and TFRS 9 with a date of initial application of 1 January 2018. The comparative information has not been restated according to the transition period.

**Approval of Consolidated Financial Statements**

These consolidated financial statements has been approved by the Board of Directors and signed by the Chairman and General Manager Davut Doğan and Financial Affairs Director Tarık Aksoy on behalf of the Board of Directors on 11 March 2019. The General Assembly and the relevant regulatory authorities have right to amend the consolidated financial statements. The related regulatory authorities are authorized to request amendments to these consolidated financial statements.

**b) Measurement Basis**

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

**c) 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.

**DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş. and ITS SUBSIDIARIES**  
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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.1 Basis of presentation of consolidated financial statements (continued)**

**d) Comparative Information and Restatement of prior periods' financial statements**

The Group's consolidated financial tables are prepared by comparing that of previous periods to determine financial situation and performance trends. When it has been found necessary, comparative information is reclassified and important differences are explained to ensure that comparative information would be in accordance with current period consolidated financial statements.

**e) 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.

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

**f) Basis of consolidation**

As at 31 December 2018 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 comparison 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.

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.1 Basis of presentation of consolidated financial statements (continued)**

**f) Basis of consolidation (continued)**

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.

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 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.

**2.2 Changes in Accounting Policies**

Except for the changes below, the accounting policies applied in these consolidated financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017.

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.2 Changes in Accounting Policies (continued)**

**2.2.1 TFRS 15 Revenue from Contracts with Customers**

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

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

TFRS 15 did not have a significant effect on the recognition of the Group's revenue.

Significant accounting policy details about Group's various products and services and revenue recognition methods are explained in Note 2.5.

**2.2.2 TFRS 9 Financial Instruments**

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

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

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

	<b>1 January 2018- Effect of TFRS 9</b>
<b>Accumulated Losses</b>	
Expected credit losses in accordance with TFRS 9	(3,620,133)
Related Tax	796,429
<b>Opening balance according to TFRS 9 (1 January 2018)</b>	<b>(2,823,704)</b>

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.2 Changes in Accounting Policies, Comparative Information and Restatement of Prior Periods’ financial statements (Continued)**

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

<b>Financial Assets</b>	<b>Original classification under TAS 39</b>	<b>New classification under TFRS 9</b>	<b>Original carrying amount under TAS 39</b>	<b>New carrying amount under TFRS 9</b>
Cash and cash equivalents	Loans and receivables	Amortized cost	3,363,130	3,363,130
Trade receivables	Loans and receivables	Amortized cost	110,498,983	106,878,850
Other receivables	Loans and receivables	Amortized cost	3,604,693	3,604,693
Financial investments	Available for sale financial assets	Fair value through other comprehensive income	9,469,958	9,469,958
<b>Financial liabilities</b>				
Bank borrowings	Other financial liabilities	Other financial liabilities	255,094,961	255,094,961

*Impact of the new impairment model*

The details of new accounting policy that the Group need to apply in the context of the new model according to TFRS 9 are disclosed in Note 2.5.(e) under section “Impairment on assets”. As a result, the Group reclassified impairment losses amounting to TL 1,397,953 which has been recognized under TAS 39, from ‘general administrative expenses and cost of goods sold’ to “Impairment gain/ (loss) and reversal of impairment loss determined in accordance with TFRS 9” in the statement of profit or loss for 31 December 2017.

**2.3 Changes in Accounting Estimates and Errors**

Changes in the accounting estimates should be accounted in financial statements prospectively; if the change is related to only one period, it should be accounted at the current year that the change is performed, but if it is related to more than one period it should be accounted at both the current and future periods. There are no significant changes in the accounting estimates for the current period.

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.4 New and Revised Turkish Accounting Standards**

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

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

**IFRS 16 Leases**

On 16 April 2018, POA issued the new leasing standard which will replace TAS 17 Leases, IFRS 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. IFRS 16 Leases eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

**IFRS Interpretation 23 –Uncertainty Over Income Tax Treatments**

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

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS Interpretation 23.

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.4 New and Revised Turkish Accounting Standards (continued)**

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

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

On December 2017, POA has issued amendments to TAS 28 to clarify that entities also apply TFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity’s net investment in an associate or joint venture. An entity applies IFRS 9 to such long-term interests before it applies related paragraphs of TAS 28. In applying TFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying TAS 28.

The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

The Group does not expect that application of TAS 28 will have significant impact on its consolidated financial statements.

**Amendments to TFRS 9 - Prepayment features with negative compensation**

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

The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

The Group does not expect that application of the amendments to TFRS 9 will have significant impact on its consolidated financial statements.

**The revised Conceptual Framework**

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

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.4 New and Revised Turkish Accounting Standards (continued)**

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

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

*Annual Improvements to IFRSs 2015-2017 Cycle*

*Improvements of IFRS*

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

*IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*

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

*IAS 12 Income Taxes*

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

*IAS 23 Borrowing Costs*

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



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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.4 New and Revised Turkish Accounting Standards (continued)**

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

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

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

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

**Amendments to IAS 1 and IAS 8 - Definition of Material**

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

The Group does not expect that application of these amendments to IAS 1 and IAS 8 will have significant impact on its consolidated financial statements.

**Amendments to IFRS 3 - Definition of a Business**

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

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

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies**

Significant accounting policies applied in the preparation of the consolidated financial statements are summarized below:

**a) Revenue**

General model for accounting of revenue

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

Step 1: Identify the contract

A contract with a customer is in the scope of the new standard when the contract is legally enforceable and certain criteria are met. If the criteria are not met, then the contract does not exist for purposes of applying the general model of the new standard, and any consideration received from the customer is generally recognized as a deposit (liability).

Contracts entered into at or near the same time with the same customer (or a related party of the customer) are combined and treated as a single contract when certain criteria are met.

Step 2: Identify the performance obligations

The Group defines the “performance obligations” as a unit of account for revenue recognition. The company assesses the goods or services it has committed in a contract with the customer and determines each commitment to the customer as one of the performance obligations as a performance obligation:

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

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

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

Step 3: Determine the transaction price

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

Significant financing component

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

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**a) Revenue (continued)**

General model for accounting of revenue (continued)

Step 4: Allocate the transaction price

The transaction price is allocated to each performance obligation – generally each distinct good or service – to depict the amount of consideration to which an entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

Step 5: Recognize revenue

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

- Customer simultaneously receives and consumes the benefits as the entity performs, or
- The entity’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or
- The entity’s performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date

For each performance obligation that is satisfied over time, an entity applies a single method of measuring progress toward complete satisfaction of the obligation. The objective is to depict the transfer of control of the goods or services to the customer. To do this, an entity selects an appropriate output or input method. It then applies that method consistently to similar performance obligations and in similar circumstances. If a performance obligation is not fulfilled in time, then the Group recognizes revenue when the control of goods or services is transferred to the customer.

The Group generates revenue by producing and selling products such as cord fabric, polyester and nylon yarn and composite materials. Revenue is recognized in accordance with delivery terms agreed with the customer when the products are transferred to the customer.

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

Contract modifications

The Group recognizes a contract modifications as a separate contract if the modification results in a promise to deliver additional goods or services that are distinct and an increase in the price of the contract by an amount of consideration that reflects the entity’s stand-alone selling price of those goods or services adjusted to reflect the circumstances of the contract. If the goods or services, then the entity accounts for it on a combined basis with the original contract, as if the additional goods or services were part of the initial contract.

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**a) Revenue (continued)**

Contract modifications (continued)

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group’s various goods and services are set out below:

Revenues are recognised on an accrual basis at the time deliveries are made, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group at the fair value of considerations received or receivable. Net sales represent the invoiced value of goods sold less sales returns and commissions, and exclude sales taxes. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognized as interest income on a time proportion basis that takes into account the “effective yield” on the asset.

The Group transfers revenue to a customer and recognizes the revenue in its consolidated financial statements as per it fulfills or when it fulfills the performans obligation. When the control of an asset is checked (or passed to) by the customer, the assets is transferred.

The Group recognizes the revenue in the financial statements in accordance with the following basic principles:

- a) Identify the contracts with customer
- b) Identify the performance obligations in contracts
- c) Determine the transaction price in contracts
- d) Transaction price allocation to performance obligations
- e) Revenue recognition when each performance obligations are met.

**b) Inventories**

Inventories are valued at the lower of cost or net realisable value. Cost elements included in inventories are materials, labour and an appropriate amount of factory overheads. The unit cost of inventories is determined on the moving weighted average basis.

Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale. When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in statement of income/(loss) in the period the write-down or loss occurred. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the original write-down.

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**c) Property, plant and equipment**

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. 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.

Property, plant and equipment are carried at the acquisition cost less accumulated depreciation and impairment, if any. Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

A increase in carrying amount on the revaluation of such land, buildings, land improvements and machinery and equipments is charged to revaluation funds in equity. A decrease in carrying amount arising on the revaluation of such buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Each year, the difference between the depreciation calculated over the revalued amount and the depreciation allocated over the pre-revaluation cost of the asset is transferred from the accumulated losses to the revaluation fund. Similar policies are applied to the disposal of tangible assets.

Buildings, land improvements and machinery and equipments are capitalized and depreciated when their capacities are ready to be fully utilized and their physical conditions meet the specified production capacity.

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

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

Useful lives and residual value are reviewed at each reporting date and adjusted if necessary.

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**c) Property, plant and equipment (continued)**

The cost of an item of property, plant and equipment comprises:

- Acquisition costs, including import duties and non-refundable purchase taxes, less discounts and rebates
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating
- Employee benefits arising directly from the construction or acquisition of the item of the asset
- Site preparation and expropriation costs for the construction works
- Initial delivery and handling costs
- Installation and assembly costs
- Professional fees
- Borrowing costs eligible for capitalisation

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset less the costs of disposal. Value in use is the present value of the future cash flows expected to be derived from an asset.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other operating income or other operating expense in the consolidated statement of income.

**d) 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.

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**d) Intangible assets (continued)**

*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.

**e) Financial Instruments**

*i) Recognition and measurement*

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

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

*ii) Classification and subsequent measurement*

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI – debt and equity investment, or equity investment.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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

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

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**e) Financial Instruments (continued)**

*ii) Classification and subsequent measurement (continued)*

Financial assets – Policy applicable from 1 January 2018 (continued)

A debt instrument is measured at amortized cost if it meets both of the following conditions and is not designated as at FVOCI:

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

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

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

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

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

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales. Financial assets that are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.



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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**e) Financial Instruments (continued)**

*ii) Classification and subsequent measurement (continued)*

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

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

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

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

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

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

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

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**e) Financial Instruments (continued)**

*ii) Classification and subsequent measurement (continued)*

Financial assets- Subsequent measurement and gains and losses – Policy applicable from 1 January 2018

Accounting policies at below is applicable for following measurement of financial assets.

<b>Financial assets at FVTPL</b>	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
<b>Financial assets at amortized cost</b>	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on de-recognition is recognized in profit or loss.
<b>Equity investments at FVTPL</b>	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial assets: Policy applicable before 1 January 2018

Loans and receivables

The Group classified its financial assets as follows: loans and receivables. The Group initially recognized loans and receivables and deposits on the date that they were originated.

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

The Group initially recognizes loans and receivables on the date that they are originated. All other financial assets are recognized initially on the trade date. Financial assets other than financial assets at fair value through profit or loss are initially recognized at fair value plus transaction costs. The Group derecognises a financial asset when the contractual rights to the cash flows from the assets expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risk and rewards of ownerships of the financial assets are transferred. Loans and receivables are recognized at amortized cost using the effective interest method.

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**e) Financial Instruments (continued)**

*ii) Classification and subsequent measurement (continued)*

*Financial liabilities- Classification, subsequent measurement and gains and losses*

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. The Group does not have any financial liabilities at FVTPL.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

*i) Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss are initially recognized at fair value and revalued at their fair value at the balance sheet date. Changes in fair value are recognized in profit or loss. Net gain or loss recognized in profit or loss includes the interest paid on the financial liability. As at the balance sheet date, the Group has no financial liabilities at fair value through profit or loss.

*ii) Other financial liabilities*

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

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

Gain or loss arising from the derecognition of such liabilities are recognized in profit or loss.

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**e) Financial Instruments (continued)**

*iii) Derecognition*

*Derecognition – Policy applicable after 1 January 2018*

*Financial assets*

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

The Group continues to recognize the financial asset in the statement of financial position if it retains substantially all the risks and benefits arising from the ownership of a financial asset.

*Financial Liabilities*

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

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

*Derecognition – Policy applicable before 1 January 2018*

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

*iv) Offsetting*

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

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**f) Impairment of assets**

i. Non-derivative financial assets

Policy applicable from 1 January 2018

Financial instruments and contract assets

The Group recognizes loss allowances for ECLs on:

- financial assets measured at amortized cost

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

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

The Group applied lifetime ECL for calculation of loss allowances for trade receivables.

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

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

*Measurement of ECL*

ECLs are a probability-weighted estimate of credit losses. In other words, it is the credit losses that are measured on the present value of all the cash deficits (for example, the difference between the cash inflows to the entity and the cash flows expected by the entity to be collected based on the contract).

The cash deficit is the difference between the cash flows to be incurred and the cash flows expected to be received by the entity. As the amount and timing of payments are considered in anticipated credit losses, a credit loss occurs even if the entity expects to receive the full payment in the contract with the maturity specified in the contract. Expected credit loss are discounted over the effective interest rate of the financial asset.

Credit-impaired financial assets

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

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**f) Impairment of assets (continued)**

**i. Non-derivative financial assets (continued)**

**Credit-impaired financial assets (continued)**

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial re-organization; or
- the disappearance of an active market for a security because of financial difficulties.

**Presentation of impairment in the statement of financial position**

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

The loss provision for the debt instruments measured at fair value through other comprehensive income is reflected in the other comprehensive income instead of decreasing the carrying amount of the financial asset in the statement of financial position.

**Write-off**

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

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

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**f) Impairment of assets (continued)**

*Non-derivative financial assets- Policy applicable before 1 January 2018*

<b>Financial assets measured at amortized cost</b>	<p>The Group evaluates impairment indicators for these assets both at the asset level and collectively. All significant assets are assessed for impairment. Assets that do not have significant impairment as a separate asset are tested for impairment only for impairment losses that have been incurred but have not yet been determined. Assets that are not significant alone are grouped as assets with similar risk characteristics and are subject to impairment tests.</p>
	<p>The Group collectively evaluates the impairment and takes into consideration the past tendencies of recovery timing and loss amounts. In making this assessment, the Group management makes necessary adjustments by taking into consideration the current economic situation and credit conditions, and considering that the losses should be more or less than the provision for impairment.</p>
	<p>An impairment loss is the difference between the carrying amount of the asset and its estimated future cash flows discounted at the original effective interest rate to its present value. Losses are recognized in profit or loss and recognized using the reserve account. When the Group has no realistic expectations for the recovery of the asset, the related amounts are deducted. If an event occurring after the impairment is recognized causes a decrease in impairment, such decrease is recognized in profit or loss and reversed from the previously recognized impairment loss.</p>
<b>Assets held for sale</b>	<p>Impairment on available-for-sale financial assets is accounted for by reclassifying accumulated losses in equity in the fair value reserve. Accumulated losses transferred from equity to profit or loss are calculated by deducting the impairment losses recognized in profit or loss, other than the difference between the cost to the principal and the present value of the difference between the recoverable amount and amortization. In the event that an increase in the fair value of a debt instrument classified as available-for-sale is recognized in a subsequent period, the increase in the impairment of the impairment is recognized in profit or loss in the event that an increase in fair value is recognized in an event occurring after the impairment loss is recognized. Impairment losses recognized in profit or loss relating to investments in equity instruments classified as available for sale are not reversed by profit or loss.</p>

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**g) Financial assets**

Available for sale financial assets are constituted from subsidiaries which has not been consolidated because of materiality by the Group (Note 11). Available for sale financial assets are valued at the fair value if they are measured reliably after they recognized. Marketable securities are shown on cost value that are not measured reliably.

**h) Taxes on income**

Taxes on income for the period comprise of current tax and the change in deferred income taxes. Current year tax liability consists of the taxes calculated over the taxable portion of the current year income by reference to corporate income tax rates enacted as of the reporting date and adjustments provided for the previous years’ income tax liabilities.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax base of assets and liabilities and their carrying values for financial reporting purposes. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

Deferred tax assets or liability are reflected to the consolidated financial statements to the extent that they will decrease or increase the tax payable amount when the temporary differences will disappear. Deferred income tax liabilities are recognised for all taxable temporary differences, whereas deferred income tax assets resulting from deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred income tax assets and deferred income tax liabilities related to income taxes levied by the same taxation authority and are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities (Note 21).

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



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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**i) Impairment of non-financial assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives such as goodwill are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

**j) Provisions for employee benefits**

*Provisions for termination indemnity*

In accordance with existing social legislation in Turkey, the Company is required to make lump-sum termination indemnity payments to each employee who has completed over one year of service with the Company and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. As detailed in Note 14, the employee benefit liability is provided for in accordance with TAS 19 “Employee Benefits” and is based on an independent actuarial study. Actuarial gains and losses that calculated by professional actuaries, are recognized in the actuarial gain/loss fund regarding employee termination benefits in the equity. Recognized gains and losses shall not be transferred to comprehensive statement of income in the following periods. Reserve for employee termination benefits is recognized to financial statements that calculated with the discount rate estimated by professional actuarial.

*Unused vacation*

Unused vacation rights accrued in the consolidated financial statements represents estimated total provision for potential liabilities related to employees' unused vacation days as of the balance sheet date.

**k) Provisions, contingent assets and liabilities**

Provisions are recognised when the Group has a present legal constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**k) Provisions, contingent assets and liabilities (continued)**

Where the effect of time value of money is material, the provision amount is determined as the present value of the payments expected to be required for the fulfillment of the obligation. In determining the discount rate to be used in the reduction of the provisions to the present value, the interest rate in the relevant markets and the risk related to the said liability are taken into consideration. The discount rate must be pre-tax rate. This discount rate does not include the risk of future cash flows.

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

**l) Equity items**

Ordinary shares are classified as equity. Dividends payable are recognised in the financial statements as a result of profit distribution in the period in which they are declared.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Group’s equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Group’s equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Group’s equity holders.

In the restatement of shareholders’ equity items, the addition of funds formed due to inflation such as the revaluation value increase fund in share capital is not considered as a contribution from shareholders. Additions of legal reserves and retained earnings to share capital are considered as contributions by shareholders.

In the restatement of shareholders’ equity items added to share capital the capital increase registry dates or the payment dates are considered. In the restatement of share premiums, the payment dates are considered (Note 16).

**m) Related Parties**

Related parties are individuals or entities that are related to the entity that is preparing its financial statements (“reporting entity”).

- a) An individual or a close family member is considered related party of the reporting entity when the following criteria are met: If a certain individual,
  - (i) Has control or joint control over the reporting entity,
  - (ii) Has significant influence over the reporting entity,
  - (iii) Is a key management personnel of the reporting entity or a parent company of the reporting entity.

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**m) Related Parties (continued)**

b) An entity is considered related party of the reporting entity when the following criteria are met:

- (i) If the entity and the reporting entity is within the same group. (meaning every parent company, subsidiary and other subsidiaries are considered related parties of others).
- (ii) If the reporting entity is a subsidiary or a joint venture of another entity (or of another entity that the entity is within the same group).
- (iii) If both of the entities are a joint venture of a third party.
- (iv) If one of the entities are a joint venture of a third party while the other entity is a subsidiary of this third party.
- (v) If entity has plans of post employment benefits for employees of reporting entity or a related party of a reporting entity. If the reporting entity has its own plans, sponsor employers are also considered as related parties.
- (vi) If the entity is controlled or jointly controlled by an individual defined in the article (a).
- (vii) If an individual defined in the clause (i) of article (a) has significant influence over the reporting entity or is a key management personnel of this certain entity (or a parent company of the entity).

Related party transactions are transfers of resources, services or liabilities between related parties and the reporting entity, regardless of whether or not against remuneration. For the purpose of these consolidated financial statements, shareholders of Hacı Ömer Sabancı Holding A.Ş. Group Companies, key management personnel and board members, in each case together with their families and companies controlled by or affiliated with them and associated companies are considered and referred to as related parties The Group determined its top management as board of directors, the president (CEO) and vice presidents, and the general managers of the subsidiaries (Note 6).

**n) Earnings per share**

Earnings per share are determined by dividing net profit by the weighted average number of shares that have been outstanding during the period concerned. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“Bonus Shares”) to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Share issuances are regarded as issued shares. Accordingly the weighted average number of shares used in earnings per share computations is derived by giving retrospective effect to the issuances of the shares without consideration (Note 24).

**o) Statement of cash flows**

Consolidated statements of cash flows are reported by presenting cash flows from operating, investing and financing activities separately.

Cash flows from operating activities are the cash flows from Group’s principal revenue-producing activities.

Cash flows from investing activities are the cash flows from Group’s acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Cash flows from financing activities are the cash flows from Group’s changes in the size and composition of the contributed equity and borrowings.

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.5 Summary of Significant Accounting Policies (continued)**

**p) Treasury shares**

The Group recognises consideration fee paid to acquire its own shares under “treasury shares” account in equity. In case of a resale of those treasury shares, difference between the consideration received and paid is recognized in accumulated losses.

**r) Financial Leases**

*(i) Determining whether an arrangement contains a lease*

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease.

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

*(ii) Leased assets*

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

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

*(iii) Lease payments*

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

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

**s) Effect of changes in foreign exchange rates**

**Foreign Currency Transactions and Balances**

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in TL, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**s) Effect of changes in foreign exchange rates (continued)**

In preparing the financial statements of the individual entities, transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise except for:

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings,
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies),
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

**t) Events after the balance sheet date**

The Group adjusts the amounts recognised in the consolidated financial statements to reflect the adjusting events after the balance sheet date. If non-adjusting events after the balance sheet date have material influences on the economic decisions of users of the financial statements, they are disclosed in the notes to the consolidated financial statements.

**2.6 Going Concern**

For the year ended 31 December 2018, the Group has incurred a loss of TL 89,219,008. As at 31 December 2018, the accumulated losses amounting to TL 82,038,854. As at 31 December 2018, the Group’s shareholders’ equity which is negative conditions together with previous’ year loss is TL 3,687,960.

The increase in foreign exchange rates have a negative impact on the Group's financial statements. To mitigate the negative impact of the increase in foreing exchange rates on the financial statements of the Group and to manage its financial structure and cash flow, the Group management has decided to pay the short term TL borrowings in 2019 by using long-term loans or by extending the maturity of foreign currency borrowings and the Group’s management has started negotiations with financial institutions to using derivative instruments for short term transactions. In order to provide natural protection from exchange rate risk, sales departments have set new policies to increase exports. In this context, in order to increase sales and cash, fast consumer finance products were activated in dealers and stores and the customer was allowed to buy furniture with a 36 months term.

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.6 Going Concern (continued)**

In addition, the Group is planning to begin hedge accounting by associating bank borrowings with foreign currency dominated borrowings that are highly probable.

For the strong capital structure, within the scope of the Public Disclosure Platform’s Issued Document dated 20 February 2019 approved by the Capital Market Board’s decision no 10/221 dated 14 February 2019 the paid-in capital was increased from TL 209,069,767 to 269,069,767. All of the issued shares with a nominal value of TL 60,000,000 were sold to Doğanlar Yatırım Holding A.Ş.

Additionally, to increase profitability, all procurement processes have been reviewed, raw material price fixations are made through long-term connections and efforts are made to reduce the purchase cost. Cost optimization to increase gross profitability and actions to increase factory efficiency continue. Gaps in the product segmentation will be completed and new product entry will be provided in the portfolio at a rate of 50% and gross profitability will be increased by turning to products with high design value.

In 2018, The Group, considering future profitability criteria, have closed certain stores made organizational changes and took the necessary actions to reduce expenses.

In addition, on 11 March 2019, the Group made a material event disclosure at the Public Disclosure Platform in accordance with the CMB’s decision no 11/352:

“The Company's financial statements are reported in accordance with CMB regulations dated 31 December 2018. The shareholders' equity in our Company's financial statements is (-) TL 3,687,958.

The main reason why the equity of our company, which continues its production, sales and operations, to a negative value in its balance sheet as of 31 December 2018 is the statement of profit or loss and the foreign exchange losses that are reflected to our statement of financial position in 2018.

Article 376 of the Turkish Commercial Code No. 6102 “Until 1/1/2023, the calculation of loss of capital within the scope of Article 376 of the Law may not take into account foreign exchange losses arising from foreign currency liabilities not yet fulfilled.” is phrased.

Accordingly, the cumulative foreign exchange loss from banking and commercial purchase transactions is amounting to TL 66,664,849 as at 31 December 2018.

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.6 Going Concern (continued)**

In this scope, the Special Purpose Financial Statement (TCC 376 balance sheet) has been prepared based on the fair value of the brand value in intangible assets and not taking into consideration the foreign currency loss that are not realized pursuant to the CMB's resolution no. 11/352 of 10 April 2014 (decree no. 2014/11).

The Company's equity is determined as TL 77,946,889 in the statement of financial position of the Special Purpose Financial Statements prepared (TCC 376 balance sheet) when considering that the current value of the Company's brand is TL 32,500,000 and the unrealized cumulative foreign exchange loss of TL 66,664,849 is not taken into consideration.

**2.7 Critical Accounting Judgments, Estimates and Assumptions**

Preparation of the consolidated financial statements in accordance with Turkish Financial Reporting Standards necessitates the usage of estimations and assumptions that can affect amounts of reported assets and liabilities as of reporting date, the explanation for the contingent assets and liabilities and income and expenses reported during the accounting period. Although these estimations and assumptions are based on the best judgement of the Group management related with the current conditions and transactions, actual results may differ from these estimations. Estimations are revised on a regular basis; necessary adjustments and corrections are made; and they are included in the income statement when they accrue. Estimations and assumptions subject to the risk of leading to corrections in the registered value of the assets and liabilities in the next financial period are given below.

**2.7.1 Useful lives of tangible and intangible assets**

In accordance with the accounting policy given in the Note 2.5, tangible and intangible assets are stated at historical cost less depreciation and net of any impairment. Useful lives depend on best estimates of management, are reviewed in each financial period and necessary corrections are made.

**2.7.2 Revaluation of land, land improvements buildings and machinery and equipment**

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.

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**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)**

**2.7 Critical Accounting Judgments, Estimates and Assumptions (continued)**

**2.7.2 Revaluation of land, land improvements buildings and machinery and equipment (continued)**

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 that may occur during the realization of the purchase and sales transaction may differ from these values.

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 in the consolidated financial statements and related period ends.

**2.7.3 Warranty expenses provision**

Warranty expenses are recognized on an accrual basis for amounts estimated based on prior periods' realization. It is expected that the payment will be occur in the next fiscal year. The management decides on demand warranty information, historical demand information in and the circumstances that future demand forecasts of current trends will need to change.

The Group generally guarantees 24 months for the furniture products. The management decides on demand warranty information, historical demand information in and the circumstances that future demand forecasts of current trends will need to change. The current year estimations are consist with prior year estimations. The factors that may affect forecasted demands include part and labor costs as well as the Group's efficiency and quality initiatives' success. The carrying amount of provision is 6,545,969 TL on 31 December 2017 (2017: TL 5,135,261). If the estimation had appreciated/depreciated by 10%, the provision amount would have been 654,597 TL higher/lower (2017: TL 513,626 higher/lower).

**2.7.4 Deferred taxes calculated over accumulated losses**

Deferred income tax assets are recognized to extent that the realisation of the related tax benefit through the future taxable profits is probable. Deferred income tax assets are recognized for tax losses carried forward and unused investment incentives to extent that the realisation of the related tax benefit is probable.

As at 31 December 2018, the Group recognised deferred income tax assets amounting to TL 22,841,495 (31 December 2017: TL 9,103,117) over the carryforward tax losses amounting to TL 114,207,477 (31 December 2016: TL 41,377,804).

The Group management estimated that carryforward tax losses amounting to TL 114,207,477 will be utilized considering its budgeted financial statements which were prepared in accordance with the approved 5-years business plan.



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**3. CASH AND CASH EQUIVALENTS**

As of 31 December 2018 and 31 December 2017, the details of cash and cash equivalents are as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Cash on hand	8,155	24,317
Cash at banks – Demand deposit	3,287,486	3,099,651
Other cash and cash equivalents (*)	271,247	239,162
	<b>3,566,888</b>	<b>3,363,130</b>

(\*) As at 31 December 2018 and 31 December 2017 other cash and cash equivalents comprised of credit card POS receivables.

As at 31 December 2018 and 31 December 2017, there is no restriction on bank accounts.

The currency, credit risks and sensitivity analysis of the Group's financial assets and liabilities are disclosed in Note 22.

**4. BORROWINGS**

	<b>31 December 2018</b>		
	<b>Weighted average effective interest rate %</b>	<b>Original currency</b>	<b>TL Equivalent</b>
<b>Short-term borrowings:</b>			
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
<b>Short term borrowings</b>			<b>94,575,077</b>
<b>Short-term portion of long-term borrowings:</b>			
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
<b>Short-term portion of long-term borrowings</b>			<b>119,879,404</b>
<b>Total short-term borrowings</b>			<b>214,454,481</b>
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
<b>Long-term bank borrowings</b>			<b>161,800,015</b>
<b>Total bank borrowings</b>			<b>376,254,496</b>

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**4. BORROWINGS (continued)**

	31 December 2017		
	Weighted average effective interest rate %	Original currency	TL Equivalent
<b>Short-term borrowings:</b>			
EUR denominated bank borrowings	%0.75 - %5.52	9,158,678	41,356,009
TL denominated bank borrowings	%13,75 - %15,80	39,742,226	39,742,226
<b>Short-term borrowings</b>			<b>81,098,235</b>
<b>Short-term portion of long-term borrowings:</b>			
EUR denominated bank borrowings	%0.75 - %5.52	8,986,030	40,576,420
TL denominated bank borrowings	%13.75 - %15.80	17,648,031	17,648,031
<b>Short-term portion of long-term borrowings</b>			<b>58,224,451</b>
<b>Total short-term borrowings</b>			<b>139,322,686</b>
EUR denominated bank borrowings	%0.75 - %5.52	19,656,279	88,757,929
TL denominated bank borrowings	%13.75 - %15.80	27,014,346	27,014,346
<b>Long-term bank borrowings</b>			<b>115,772,275</b>
<b>Total bank borrowings</b>			<b>255,094,961</b>

As at 31 December 2018 and 31 December 2017, all borrowings are guaranteed, and there is a mortgage on the property, plant and equipment of the Group (Note 14).

The reconciliation of the Group’s obligations arising from its financial activities as at 31 December 2018 is as follows:

	31 December 2018	31 December 2017
<b>1 January 2018 borrowings</b>	255,094,961	228,942,512
Proceed form borrowings	234,132,264	22,555,487
Repayment of borrowings	(162,797,477)	(24,058,121)
Interest accruals	10,180,767	3,315,804
Effects of change in foreign exchange	39,643,981	24,339,279
<b>31 December 2018 borrowings</b>	<b>376,254,496</b>	<b>255,094,961</b>

The Group’s exposure to currency risk related to borrowings are disclosed in Note 22.

The redemption schedule of borrowings as at 31 December 2018 and 31 December 2017 is as follows:

	31 December 2018	31 December 2017
Up to 3 months	49,012,542	53,349,638
3-12 months	165,441,939	85,973,048
1-5 years	161,800,015	115,772,275
	<b>376,254,496</b>	<b>255,094,961</b>

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**5. TRADE RECEIVABLES AND TRADE PAYABLES**

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Trade receivables</b>	93,881,397	100,387,961
-Trade receivables from related parties (Note 6)	1,110,954	4,615,348
-Trade receivables from non-related parties	92,770,443	95,772,613
Notes receivable	4,245,718	12,906,864
Doubtful trade receivables	23,475,101	19,992,777
Provisions for doubtful trade receivables (-)	(23,475,101)	(19,992,777)
Deferred finance income (-)	(2,211,842)	(2,795,842)
	<b>95,915,273</b>	<b>110,498,983</b>

As at 31 December 2018 the average maturity of short-term trade receivables is less than 3 months (2017: shorter than 3 months). The effective interest rate applied to deferred finance income of the Group is 24.42% . (31 December 2017: 14.90%).

As at 31 December 2018, trade receivables amounting to TL 43,275,966 (31 December 2017: TL 38,244,261) have not been considered as doubtful receivables although they are past due (Note 22).

The details of credit risk, exchange rate risk and impairment for the trade receivables of the Group are disclosed in Note 22.

As at 31 December 2018 and 2017, the movement of doubtful trade receivables provision is as follows:

<b>The movement of doubtful receivables</b>	<b>2018</b>	<b>2017</b>
<b>Opening balance</b>	<b>23,612,910</b>	<b>18,594,824</b>
Provisions during the period	883,244	1,397,953
Collections during the period	(1,021,053)	--
	<b>23,475,101</b>	<b>19,992,777</b>

As at 31 December 2018 and 2017, trade payables are as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Trade payables</b>	52,633,550	87,509,139
- Trade payables from non-related parties	52,633,550	87,509,139
Notes payable	107,983,854	154,219,426
Deferred finance expense (-)	(20,869,993)	(13,529,159)
	<b>139,747,411</b>	<b>228,199,406</b>

As at 31 December 2018, the average payable period for short-term trade payables is less than 3 months (31 December 2017: less than 3 months). The effective interest rate on deferred financing expenses is 24.45% (31 December 2017: 14.90%).

Details regarding liquidity risk and exchange rate risk for trade payables of the Group are described in Note 22.

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**6. 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 31 December 2018 and 31 December 2017 are as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Due from related parties</b>		
Doğtaş Germany GmbH	230,866	3,148,370
Doğtaş Bulgaria Eood	9,645	633,208
Doğtaş Holland B.V.	--	621,472
Real person shareholders	870,443	114,132
Other	--	98,166
	<b>1,110,954</b>	<b>4,615,348</b>
<b>Due to related parties</b>		
Doğanlar Yatırım Holding A.Ş.(*)	56,726,999	11,767,210
	<b>56,726,999</b>	<b>11,767,210</b>

- b) Rendered of goods and services to related parties and financial income from related parties for the year ended 31 December 2018 and 31 December 2017 are as follows:

	<b>1 January – 31 December 2018</b>	<b>1 January – 31 December 2017</b>
<b>Services rendered</b>		
Doğanlar Yatırım Holding A.Ş.	41,139	4,656,834
Doğtaş Germany GmbH	--	562,378
Doğanlar Lojistik İnş. Gıda A.Ş.	--	4,618,914
Other	251,444	97,344
	<b>292,583</b>	<b>9,935,470</b>

- c) Purchase and of goods and services to related parties for the year ended 31 December 2018 and 31 December 2017 are as follows:

	<b>1 January – 31 December 2018</b>	<b>1 January – 31 December 2017</b>
<b>Sales and services purchased</b>		
Doğanlar Yatırım Holding A.Ş.	3,527,268	1,286,724
Doğan Kent Elektrik Enerjisi Toptan Satış A.Ş.	--	2,173,699
Other	25,073	3,052
	<b>3,552,341</b>	<b>3,463,475</b>

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**6. DUE FROM AND DUE TO RELATED PARTIES (continued)**

d) Key management compensation for the year ended 31 December 2018 ve 31 December 2017 are as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Short term compensation and other rights	5,793,944	4,809,794
	<b>5,793,944</b>	<b>4,809,794</b>

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 31 December 2018 and 31 December 2017 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 31 December 2018 and 2017.

**7. OTHER RECEIVABLES AND OTHER PAYABLES**

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Other short-term receivables</b>		
Deposits and guarantees given	1,806,390	3,049,445
Receivables from tax authority	984,922	412,894
Receivables from personnel	81,667	142,354
	<b>2,872,979</b>	<b>3,604,693</b>

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Other long-term receivables</b>		
Deposits and guarantees given	2,063,928	507,804
Other receivables	398,039	732,281
	<b>2,461,967</b>	<b>1,240,085</b>

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Other short-term payables</b>		
Other payables	56,726,999	11,773,569
-Other payables to related parties (Note 6)	56,726,999	11,767,210
-Other payables to related parties	--	6,359
Taxes, fees and other deductions to be paid	1,143,164	1,403,808
	<b>57,870,163</b>	<b>13,177,377</b>

**8. INVENTORIES**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Raw materials and supplies	122,770,260	104,870,119
Semi-finished goods	27,651,319	22,779,116
Finished goods	27,773,752	29,844,491
Trading goods	34,013,357	30,226,516
	<b>212,208,688</b>	<b>187,720,242</b>

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**9. OTHER ASSETS**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Deferred VAT	6,691,944	13,596,476
Advances given to personnel	44,092	1,052
Other	5,000	4,997
	<b>6,741,036</b>	<b>13,602,525</b>

**10. PREPAYMENTS AND DEFERRED INCOME**

<b>Short-term prepaid expenses</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Advances given	28,909,586	50,111,384
Prepaid expenses	2,759,297	1,108,228
	<b>31,668,883</b>	<b>51,219,612</b>

Advances given have been consisted of advances given by the Group based on raw material purchases.

<b>Short-term deferred revenue</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Advances received	41,179,412	36,080,548
Deferred revenue	914,846	914,845
	<b>42,094,258</b>	<b>36,995,393</b>

Advance received consists of the payments received by the Group in advance of the sale.

**11. FINANCIAL INVESTMENTS**

The Group's financial investments consist of financial investments whose fair value difference is reflected in other comprehensive income. As at 31 December 2018 and 31 December 2017, the financial investments are as follows:

	<b>31 December 2018</b>		<b>31 December 2017</b>	
	<b>Percentage of shareholding (%)</b>	<b>Amount</b>	<b>Percentage of shareholding (%)</b>	<b>Amount</b>
Doğtaş Holland	100.00	4,657,668	100.00	4,657,668
Doğtaş Germany	100.00	3,393,430	100.00	3,393,430
Doğtaş Bulgaria	100.00	1,418,860	100.00	1,418,860
		<b>9,469,958</b>		<b>9,469,958</b>

As the fair value cannot be measured reliably, the carrying amount of the financial assets is considered to be the acquisition cost due to there is no fair value difference of the financial assets whose fair value difference is reflected in other comprehensive income or the non-compliance of other methods used in the calculation of fair value.

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**12. PROPERTY, PLANT AND EQUIPMENT**

	Lands	Land improvements and buildings	Machinery, plant and equipment	Vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
<b>Cost</b>								
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	471,567	2,479,483	--	4,767,175	8,262,511	1,912,082	18,075,919
Transfers (Note13)	--	129,047	--	--	--	16,348,743	(16,602,066)	(124,276)
Disposals	--	(32,000)	(120,021)	--	(216,238)	(4,654,334)	--	(5,022,593)
<b>Closing balance, 31 December 2018</b>	<b>54,091,340</b>	<b>91,883,824</b>	<b>121,662,927</b>	<b>1,113,794</b>	<b>63,010,871</b>	<b>54,127,437</b>	<b>--</b>	<b>385,890,192</b>
<b>Accumulated depreciation</b>								
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	--	(2,971,687)	(1,270,026)	--	(6,385,583)	(9,008,847)	--	(19,636,143)
Disposals	--	4,263	120,021	--	76,548	1,282,552	--	1,483,384
<b>Closing balance, 31 December 2018</b>	<b>--</b>	<b>(22,918,874)</b>	<b>(47,617,180)</b>	<b>(1,113,794)</b>	<b>(40,208,285)</b>	<b>(24,968,906)</b>	<b>--</b>	<b>(136,827,039)</b>
<b>Net book value, 31 December 2017</b>	<b>53,908,240</b>	<b>71,363,760</b>	<b>72,836,290</b>	<b>--</b>	<b>24,560,684</b>	<b>16,927,905</b>	<b>14,689,984</b>	<b>254,286,863</b>
<b>Net book value, 31 December 2018</b>	<b>54,091,340</b>	<b>68,964,950</b>	<b>74,045,747</b>	<b>--</b>	<b>22,802,586</b>	<b>29,158,531</b>	<b>--</b>	<b>249,063,153</b>

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 31 December 2018, total insurance amount over property, plant and equipment is TL 136,444,125 (31 December 2017: TL 131,999,300).

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**12. PROPERTY, PLANT AND EQUIPMENT (continued)**

	<b>Lands</b>	<b>Land improvements and buildings</b>	<b>Machinery, plant and equipment</b>	<b>Vehicles</b>	<b>Furniture and fixtures</b>	<b>Leasehold improvements</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost</b>								
Opening balance, 1 January 2017	43,773,000	77,882,324	75,917,058	1,486,795	45,717,698	27,696,904	3,135,143	<b>275,608,922</b>
Additions	--	3,558,304	2,111,916	--	12,745,460	6,177,002	14,536,921	<b>39,129,603</b>
Disposals	--	--	(578,776)	(373,001)	(3,224)	--	--	<b>(955,001)</b>
Transfers	--	2,685,470	--	--	--	296,610	(2,982,080)	<b>--</b>
Revaluation reserves	10,135,240	7,189,112	41,853,267	--	--	--	--	<b>59,177,619</b>
<b>Closing balance, 31 December 2017</b>	<b>53,908,240</b>	<b>91,315,210</b>	<b>119,303,465</b>	<b>1,113,794</b>	<b>58,459,934</b>	<b>34,170,516</b>	<b>14,689,984</b>	<b>372,961,143</b>
<b>Accumulated depreciation</b>								
Opening balance, 1 January 2017	--	(17,805,324)	(44,659,338)	(1,486,795)	(27,789,491)	(11,789,303)	--	<b>(103,530,251)</b>
Charge of the year	--	(2,146,126)	(2,386,613)	--	(6,112,983)	(5,453,308)	--	<b>(16,099,030)</b>
Disposals	--	--	578,776	373,001	3,224	--	--	<b>955,001</b>
<b>Closing balance, 31 December 2017</b>	<b>--</b>	<b>(19,951,450)</b>	<b>(46,467,175)</b>	<b>(1,113,794)</b>	<b>(33,899,250)</b>	<b>(17,242,611)</b>	<b>--</b>	<b>(118,674,280)</b>
<b>Net book value, 31 December 2017</b>	<b>53,908,240</b>	<b>71,363,760</b>	<b>72,836,290</b>	<b>--</b>	<b>24,560,684</b>	<b>16,927,905</b>	<b>14,689,984</b>	<b>254,286,863</b>



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*Revaluation Assets*

The land and buildings carried by the revaluation method are composed of the factory buildings of the Group and the plots and machines of these buildings. The precedent comparison method was used in the value analysis of the land and the cost approach method was used to determine the values of all buildings and machinery. Fair values are determined by valuation companies with Capital Market Board license. The valuations were last made as of 31 December 2017.

As at 31 December 2017, the gain amounting to TL 59,177,619 arising from the valuation of land, buildings, machinery, equipment and devices has been included in other comprehensive income. There is no restriction on the distribution of revaluation funds. The fair value of these machines, buildings and land is at the second level.

**13. INTANGIBLE ASSETS**

	<b>Brand Value</b>	<b>Rights</b>	<b>Total</b>
<b>Cost</b>			
Opening balance, 1 January 2018	<b>17,530,000</b>	<b>17,541,190</b>	<b>35,071,190</b>
Additions	--	1,999,530	1,999,530
Transfers (Note 12)	--	124,276	124,276
<b>Closing Balance, 31 December 2018</b>	<b>17,530,000</b>	<b>19,664,996</b>	<b>37,194,996</b>
<b>Accumulated depreciation</b>			
Opening balance, 1 January 2018	--	<b>(11,784,414)</b>	<b>(11,784,414)</b>
Charge of the year	--	(3,167,686)	(3,167,686)
<b>Closing Balance, 31 December</b>	--	<b>(14,952,100)</b>	<b>(14,952,100)</b>
<b>Net book value, 31 December 2018</b>	<b>17,530,000</b>	<b>4,712,896</b>	<b>22,242,896</b>
	<b>Brand Value</b>	<b>Rights</b>	<b>Total</b>
<b>Cost</b>			
Opening balance, 1 January 2017	17,530,000	14,511,437	32,041,437
Additions	--	3,029,753	3,029,753
Disposals	--	--	--
Transfers	--	--	--
<b>Balance at 31 December 2017</b>	<b>17,530,000</b>	<b>17,541,190</b>	<b>35,071,190</b>
<b>Accumulated depreciation</b>			
Opening balance, 1 January 2017	--	(8,986,634)	(8,986,634)
Charge of the year	--	(2,797,780)	(2,797,780)
Disposals	--	--	--
<b>Balance at 31 December 2017</b>	--	<b>(11,784,414)</b>	<b>(11,784,414)</b>
<b>Net book value, 31 December 2017</b>	<b>17,530,000</b>	<b>5,756,776</b>	<b>23,286,776</b>

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**14. PROVISIONS, CONTINGENT AND CONTRACTED ASSETS AND LIABILITIES**

**Short-term provisions**

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
Provision for warranty expenses	4,621,935	2,976,881
Provision for litigations	2,270,907	1,462,584
Provision for project expenses	--	156,665
Other	--	--
	<b>6,892,842</b>	<b>4,596,130</b>

**Long-term provisions**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Provision for warranty expenses	1,924,033	2,158,380
	<b>1,924,033</b>	<b>2,158,380</b>

As at 31 December 2018 and 31 December 2017, the movement of the guarantee expense provision is as follows:

	<b>2018</b>	<b>2017</b>
<b>Balance at 1 January</b>	<b>5,135,261</b>	<b>1,502,555</b>
Provisions during the period	2,227,520	4,813,387
Payments during the period	(816,813)	(1,180,681)
<b>Balance at 31 December</b>	<b>6,545,968</b>	<b>5,135,261</b>

As at 31 December 2018 and 31 December 2017, the movement of the lawsuit provision is as follows:

	<b>2018</b>	<b>2017</b>
<b>Balance at 1 January</b>	<b>1,462,584</b>	<b>887,798</b>
Provisions during the period	808,323	574,786
Payments during the period	--	--
<b>Balance at 31 December</b>	<b>2,270,907</b>	<b>1,462,584</b>

As at 31 December 2018 and 31 December 2017 the movement of the project expense provision is as follows:

	<b>2018</b>	<b>2017</b>
<b>Balance at 1 January</b>	156,665	628,094
Provisions during the period	--	--
Payments during the period	(156,665)	(471,429)
<b>Balance at 31 December</b>	<b>--</b>	<b>156,665</b>

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**14. PROVISIONS, CONTINGENT AND CONTRACTED ASSETS AND LIABILITIES**  
**(continued)**

**Contingent assets and liabilities**

As at 31 December 2018 and 31 December 2017, the details of the guarantees received and given are as follows:

**Guarantees given**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Mortgagee given (*)	481,960,000	376,085,000
Letters of guarantee given to official institutions (**)	167,712,846	102,822,345
Letter of guarantees given to buyers	4,191,872	3,434,372
Letter of guarantees given to sellers	272,520	522,806
	<b>654,137,238</b>	<b>482,864,523</b>

(\*) 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**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Letters of guarantee from dealers	65,681,717	73,555,039
Mortgages from domestic dealers	18,055,000	17,500,718
Mortgages from foreign dealers	13,092,934	7,557,531
	<b>96,829,651</b>	<b>98,613,288</b>

As at 31 December 2018 and 31 December 2017, the tables of the Group's guarantees, pledges and mortgages (GPMs) are as follows:

<b>GPMs issued by the Company</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
A. Total amount of GPM's given on behalf of own legal entity	654,137,238	482,864,523
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.	--	--
<b>Total</b>	<b>654,137,238</b>	<b>482,864,523</b>

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**14. PROVISIONS, CONTINGENT AND CONTRACTED ASSETS AND LIABILITIES**  
**(continued)**

The total number of ordinary shares of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. is 10,453,488,300 with a par value of TL 0,01 and all was pledged due to the Group’s borrowings as at 31 December 2018. (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 2017. )

As at 31 December 2018 total insurance on property, plant and equipment and inventories is TL 136,444,125 and TL 169,010,000 respectively (31 December 2017: TL 131,999,300 and TL 170,225,000 respectively).

As at 31 December 2018, the Group has net off cheques amounting to TL 94,036,527 by deducting from its debts (31 December 2017: TL 60,012,853).

*Operating leases*

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
Up to 1 year	--	372,000
1 - 2 years	--	372,000
	--	<b>744,000</b>

**15. EMPLOYEE BENEFITS**

Short-term provisions for employee benefits

	<b>31 December 2018</b>	<b>31 December 2017</b>
Payables to personnel	3,926,953	3,432,009
Social security premiums	1,313,861	2,935,556
Taxes and funds payable	--	--
	<b>5,240,814</b>	<b>6,367,565</b>

**Short-term provisions for employee benefits**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Provision for unused vacation	3,800,626	3,711,822
	<b>3,800,626</b>	<b>3,711,822</b>

**Long-term provisions for employee benefits**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Provisions for termination indemnity	2,531,099	2,119,647
	<b>2,531,099</b>	<b>2,119,647</b>

According to Turkish labor law, the Group is under the obligation to pay a severance payment to employees who have completed one year of service and have been terminated due to compelling reasons or have retired, have completed 25 years of service (20 for women) and earned the right to retire, have been called to military service, or have died. The amount payable consists of one month’s salary limited to a maximum of TL 5,434.42 for each period of service as at 31 December 2018 (31 December 2017: TL 4,732.48). The provision for severance payment is calculated as the present value of the amount of the probable obligation the group will be required to pay to all its employees upon retirement.

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**15. EMPLOYEE BENEFITS (continued)**

**Long-term provisions for employee benefits (continued)**

The termination indemnity liability is not subject to any funding and there is no legally required funding requirement.

TAS 19 “Employee Benefits” requires actuarial valuation methods to be developed to estimate the Group’s obligation under the defined benefit plans. The following actuarial assumptions are used in the calculation of the total liability. Actuarial loss/ (gain) are accounted in the statement of comprehensive

income under revaluation reserves:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Inflation rate (%)	10.50	7.00
Discount rate (%)	15.20	10.80
Real discount rate (%)	3.71	3.55

For the years ended 31 December 2018 and 2017, The movement table showing the change in the provision for severance pay is as follows:

	<b>2018</b>	<b>2017</b>
<b>Balance at 1 January</b>	<b>2,119,647</b>	<b>2,082,327</b>
Interest cost	228,922	205,778
Service cost	360,996	292,418
Payment made during the period	(597,804)	(878,608)
Actuarial loss	419,338	417,732
	<b>2,531,099</b>	<b>2,119,647</b>

**16. CAPITAL, RESERVES AND OTHER EQUITIES**

**Paid-in capital and capital adjustment differences**

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

	<b>31 December 2018</b>		<b>31 December 2017</b>	
	<b>TL</b>	<b>Percentage of shareholding (%)</b>	<b>TL</b>	<b>Percentage of shareholding (%)</b>
Trading on Borsa Istanbul	104,534,884	49.99	104,534,884	49.99
Davut Doğan	16,047,503	7.68	16,047,503	7.68
Adnan Doğan	16,047,484	7.68	16,047,484	7.68
Şadan Doğan	16,047,474	7.68	16,047,474	7.68
İsmail Doğan	16,047,474	7.68	16,047,474	7.68
İlhan Doğan	16,047,474	7.68	16,047,474	7.68
Murat Doğan	16,047,474	7.68	16,047,474	7.68
Doğanlar Yatırım Holding A.Ş.	8,250,000	3.95	8,250,000	3.95
	<b>209,069,767</b>	<b>100.00</b>	<b>209,069,767</b>	<b>100.00</b>
Reverse merger capital differences	(159,069,767)		(159,069,767)	
	<b>50,000,000</b>		<b>50,000,000</b>	

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**16. CAPITAL, RESERVES AND OTHER EQUITIES (continued)**

**Paid-in capital and capital adjustment differences (continued)**

As registered in Turkish Trade Registry Gazette No. 6838 dated 26 June 2007, the Company's registered capital of TL 80,000,000 has been increased to TL 209,069,767 in 2013.

As at 31 December 2018 and 2017, the Company's paid-in capital is TL 50,000,000 and consists of 20,906,976,700 units of shares, each with a face value of TL 0.01. The difference between the registered capital and paid-in capital amounting to TL 159,069,767 was covered by the merger transaction in 2013 by the acquisition of the assets and liabilities of Doğ-Taş Doğanlar Mobilya Enerji Üretim Sanayi A.Ş.

As at 31 December 2018 and 2017, there are no preferred shares representing the capital.

As at 31 December 2017, the Company has pledge on 10,453,488,300 shares with a nominal value of TL 0.01. (31 December 2017: 9,628,488,350 shares with a nominal value of TL 0.01 are pledged in relation to the Group's loan).

**Share Premiums**

Share premiums presented in the consolidated financial consist of the difference between the issuance cost and the nominal value as a result of the issuance of share certificates issued at a capital value above the nominal value of the Company after the initial establishment of the Company. These differences were realized as TL 282,945 in capital increase in previous periods.

**Restricted Reserves**

Reserves reserve for specific purposes other than profit from previous period, due to law or contractual obligations or other profit distributions. These reserves are shown in the amounts in the statutory records of the Group and difference arising in preparing the consolidated financials statements in accordance with TFRS are associated with prior years' profit/loss.

As at 31 December 2018 restricted reserves comprised of legal reserves amounting to TL 1,107,177 (31 December 2017: TL 607,177).

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

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**16. CAPITAL, RESERVES AND OTHER EQUITIES (continued)**

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

*Revaluation gain on property, plant and equipment*

The amount of property, plant and equipment that is not recognized in profit or loss is recognized as other comprehensive income. As of 31 December 2018 and 2017, the gains arising from the change in the fair value result from the revaluation of the land, building and machinery equipment of the Company.

As of 31 December 2018, the movements for revaluation increases on tangible fixed assets are as follows:

	<b>2018</b>	<b>2017</b>
<b>Balance at beginning of the period</b>	115,492,865	68,479,964
Gain from change of fair value	--	47,012,901
<b>Balance at closing of the period</b>	<b>115,492,865</b>	<b>115,492,865</b>

*Defined Benefit Plans Remeasurement Fund*

As at 31 December 2018, TL 1,197,906 (31 December 2017: TL 1,533,376) consists of actuarial gain or loss of long term employee benefits recognized as other comprehensive income.

**Dividend Payments**

Public companies distribute profit in accordance with Profit Share Communiqué no II-19.1 issued by CMB effective from 1 February 2014. Ventures distribute their profit due to profit distribution policies set by the general assembly in accordance with the related legislation verdicts with a general assembly minute. Within the extent of the icommuniqué mentioned above a minimal distribution rate is not designated. Companies distribute their profits in accordance with their main agreements of profit distribution policies.

**17. REVENUE AND COST OF SALES**

	<b>2018</b>	<b>2017</b>
Domestic sales	647,380,648	668,634,962
Foreign sales	86,566,416	59,917,417
Sales returns (-)	(16,288,771)	(11,709,801)
Sales discounts (-)	(126,346,982)	(116,677,230)
<b>Net sales</b>	<b>591,311,311</b>	<b>600,165,348</b>
Cost of sales (-)	(420,347,269)	(376,535,779)
<b>Gross profit</b>	<b>170,964,043</b>	<b>223,629,569</b>

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**18. EXPENSES BY NATURE**

**Selling, Marketing and Distribution Expenses**

	<b>2018</b>	<b>2017</b>
Transportation expenses	31,292,287	25,332,954
Personnel expenses	23,696,022	21,533,873
Advertising expenses	21,341,473	18,923,990
Rent expenses	18,011,155	15,119,468
Depreciation and amortization expenses	17,570,597	12,351,638
Travel expenses	1,795,178	1,536,060
Consultancy expenses	1,516,046	1,528,537
Energy, water and fuel expenses	1,386,972	1,459,759
Project expenses	1,021,554	--
Maintenance and repair expenses	576,267	816,504
Representation expenses	302,983	141,531
Other	4,851,166	8,814,877
	<b>123,361,700</b>	<b>107,559,191</b>

**General and Administrative Expenses**

	<b>2018</b>	<b>2017</b>
Personnel expenses	14,033,849	11,175,844
Consultancy expenses	4,493,273	4,460,754
Depreciation and amortization expenses	2,328,138	1,524,583
Rent expenses	1,702,540	1,358,499
Office expenses	970,872	1,397,240
Food expenses	958,545	448,916
Travel expenses	859,035	863,779
Energy, water and fuel expenses	845,319	745,118
Contribution expenses	256,171	203,364
Representation expenses	221,944	337,474
Other	8,761,902	2,900,290
	<b>35,431,588</b>	<b>25,415,860</b>



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**18. EXPENSES BY NATURE (continued)**

**Research and Development Expenses**

	<b>2018</b>	<b>2017</b>
Personnel expenses	2,313,155	2,624,398
Depreciation and amortization expenses	193,743	199,403
Rent expenses	112,710	82,729
Material costs	85,698	65,697
Other	151,953	587,813
	<b>2,857,259</b>	<b>3,560,040</b>

The functional classification of personnel expenses and depreciation and amortization expenses is as follows:

**Personnel Expenses**

	<b>2018</b>	<b>2017</b>
Cost of sales	44,050,079	40,016,440
Selling, marketing and distribution expenses	23,696,022	21,533,873
General and administrative expenses	14,033,849	11,175,844
Research and development expenses	2,313,155	2,624,398
	<b>84,093,105</b>	<b>75,350,555</b>

**Depreciation and Amortization Expenses**

	<b>2018</b>	<b>2017</b>
Selling, marketing and distribution expenses	17,570,597	12,351,638
Cost of sales	2,711,351	4,819,520
General and administrative expenses	2,328,138	1,527,461
Research and development expenses	193,743	199,403
	<b>22,803,829</b>	<b>18,898,022</b>

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**19. OTHER OPERATING INCOME / (EXPENSES)**

<b>Other operating income</b>	<b>2018</b>	<b>2017</b>
Foreign exchange income	89,194,260	29,134,855
Financial income	7,924,834	8,831,825
Provisions no longer required	304,748	--
Other	9,076,368	2,134,992
	<b>106,500,210</b>	<b>40,101,672</b>

<b>Other operating expenses</b>	<b>2018</b>	<b>2017</b>
Foreign exchange losses	83,241,246	24,489,599
Effect of tax amnesty	4,403,050	--
Late payment expenses	3,051,539	7,304,190
Provision expenses	--	579,616
Other	6,972,884	224,043
	<b>97,668,719</b>	<b>32,597,448</b>

**20. FINANCE INCOME/ (EXPENSES)**

<b>Finance income</b>	<b>2018</b>	<b>2017</b>
Foreign exchange income	127,428,441	37,547,671
Interest income	65,967	764,970
	<b>127,494,408</b>	<b>38,312,641</b>

<b>Finance expense</b>	<b>2018</b>	<b>2017</b>
Foreign exchange losses	(180,675,142)	(74,672,983)
Interest expenses	(66,478,408)	(36,309,352)
	<b>(247,153,550)</b>	<b>(110,982,335)</b>

**21. TAX ASSETS AND LIABILITIES**

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.

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 (carryforward losses, if any, and if utilized exemptions for investment incentives).

In Turkey, corporate tax rate is 22% as at 30 June 2018 (2017: 20%). 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%.

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**21. TAX ASSETS AND LIABILITIES (continued)**

As of the period ended December 31, 2018, the advance tax of 22% (2017: 20%) is calculated and paid based on earnings generated for each quarter. With the amendment of the Law, this rate was determined as 22% for the years 2018, 2019 and 2020.

According to the Corporate Tax Law, tax losses shown on the tax return can be deducted from the corporate tax base of the period, provided that it does not exceed 5 years. Declarations and related accounting records can be reviewed by the tax office within five years and tax accounts can be revised.

As at 31 December 2018 and 31 December 2017, assets related to current tax are summarized below:

	31 December 2018	31 December 2017
Corporate tax calculated	--	--
Prepaid taxes (-)	(654,410)	(205,596)
<b>Current income tax assets</b>	<b>(654,410)</b>	<b>(205,596)</b>

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

	31 December 2018	31 December 2017
Current tax expense	--	--
Deferred tax benefit/ (expense)	12,611,764	(5,659,784)
<b>Tax benefit/ (expense)</b>	<b>12,611,764</b>	<b>(5,659,784)</b>

**Deferred tax**

The Group recognises deferred income tax assets and liabilities based upon temporary differences arising between their financial statements prepared in accordance with TAS and their statutory tax financial statements. Deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income under the liability method using an enacted tax rate.

As at 31 December 2018 and 31 December 2017 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)	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
<b>Deferred tax asset:</b>				
Carryforward tax losses	114,207,477	41,377,804	22,841,495	9,103,117
Investment incentives	14,695,000	13,382,640	2,993,000	2,676,528
Provision for doubtful receivables	8,952,039	8,877,125	1,969,449	1,952,968
Provision for unused vacation	3,800,626	3,711,822	836,138	816,601
Provision for warranty	6,545,968	5,135,261	1,309,194	1,027,052
Provision for employment	2,531,099	2,119,647	506,220	423,929
Provision for litigations	2,270,907	1,462,584	454,181	292,517
Other	98,376	193,270	21,643	38,654
	<b>153,371,497</b>	<b>76,260,153</b>	<b>30,931,320</b>	<b>16,331,366</b>
<b>Deferred tax liabilities:</b>				
Tangible and intangible assets	(165,557,060)	(166,273,833)	(33,111,412)	(33,051,080)
Cut-off effect	(7,330,163)	(2,568,529)	(1,612,636)	(565,076)
	<b>(172,887,223)</b>	<b>(168,842,362)</b>	<b>(34,724,048)</b>	<b>(33,616,156)</b>
<b>Deferred tax asset/ (liabilities), net</b>	<b>(19,515,726)</b>	<b>(92,582,209)</b>	<b>(3,792,728)</b>	<b>(17,284,790)</b>

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**21. TAX ASSETS AND LIABILITIES (continued)**

**Deferred tax (continued)**

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 31 December 2018, the Group has recognized deferred income tax assets amounting to TL 114,207,477 (31 December 2017: TL 41,377,804) over the carry forward tax losses amounting to TL 22,841,495 (31 December 2017: TL 9,103,117) in the consolidated financial statements.

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
2020	186,568	186,568
2021	20,688,902	41,191,236
2023	93,332,007	--
	<b>114,207,477</b>	<b>41,377,804</b>

Movements in deferred income taxes are as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>1 January 2018</b>	<b>(17,284,790)</b>	<b>(886,552)</b>
Adjustments related to TFRS 9 <sup>(*)</sup>	796,429	--
Charged to statement of profit or loss	12,611,764	(5,659,784)
Charged to statement of other comprehensive income	83,868	(10,738,454)
	<b>(3,792,728)</b>	<b>(17,284,790)</b>

<sup>(\*)</sup>The Group has begun to apply TFRS 9 standard with an initial application date of 1 January 2018. Comparative information has not been restated in accordance with the transition method used.

As of 31 December 2018 and 31 December 2017, the reconciliation of tax expense in the consolidated statement of profit or loss is as follows:

	<b>2018</b>	<b>2017</b>
Pre-tax profit / (loss) in the consolidated financial statements	(100,290,723)	20,916,198
Tax income calculated using current tax rate	22,063,959	(4,183,240)
Effect of change in statutory tax rate (*)	--	(588,812)
Effect of costs that are not accepted by law	(5,130,539)	(887,732)
Loss of rights as a result of tax base increase (**)	(5,677,828)	--
Other	(522,687)	--
	<b>(12,611,764)</b>	<b>(5,659,784)</b>

<sup>(\*)</sup>Within the scope of the "Law on the Amendment of Certain Tax Laws and Some Other Laws" numbered 7061, which was published in the Official Gazette dated December 5, 2017, the corporate tax rate for the years 2018, 2019, and 2020 has been increased from 20 percent to 22 percent. Under the Act, the deferred tax assets and liabilities in the financial statements as of 31 December 2017, the tax rate of 22 percent has been used to calculate the tax effect of temporary differences in 2018, 2019, and 2020, and 20 percent for the tax effect of temporary differences in 2021 and subsequent years.

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**21. TAX ASSETS AND LIABILITIES (continued)**

**Deferred tax (continued)**

(\*\*)The Group has taken advantage of the tax base increase for the fiscal year 31 December 2016 within the 1 January-31 December 2018 accounting period. Within this context, carryforward tax losses which are deductible from future taxable profits has been reversed by 50%.

**22. 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.

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**22. FINANCIAL RISK MANAGEMENT (continued)**

**Credit risk (continued)**

	Receivables					
	Trade receivables		Other receivables		Cash and cash equivalents and credit card receivables	Other
	Related parties	Third parties	Related parties	Third parties		
<b>31 December 2018</b>						
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	--	--	--	--	--	--

	Receivables					
	Trade receivables		Other receivables		Cash and cash equivalents and credit card receivables	Other
	Related parties	Third parties	Related parties	Third parties		
<b>31 December 2017</b>						
Maximum credit risk exposure at reporting date (A+B+C+D+E)	4,615,348	105,883,635	--	4,844,778	3,338,813	--
- Portion of maximum risk covered by guarantees	--	--	--	--	--	--
A. Carrying value of financial assets that are neither past due nor impaired	98,166	72,156,556	--	4,844,778	3,338,813	--
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	4,517,182	33,727,079	--	--	--	--
-Portion under guarantee with collateral	--	--	--	--	--	--
D. Carrying value of impaired assets	--	--	--	--	--	--
-Past due (gross carrying amount)	--	19,992,777	--	--	--	--
-Impairment (-)	--	(19,992,777)	--	--	--	--
E. Off-balance sheet items with credit risk	--	--	--	--	--	--

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**22. FINANCIAL RISK MANAGEMENT (continued)**

**Credit risk (continued)**

As at 31 December 2018 and 31 December 2017 aging analysis of past due but not impaired related and third party trade receivables are as follows

	31 December 2018	31 December 2017
Less than 30 days	7,545,116	7,718,749
30 - 119 days	8,025,932	7,877,988
120 - 179 days	1,151,026	2,137,250
180 days and over	26,553,892	20,510,274
	<b>43,275,966</b>	<b>38,244,261</b>

**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 31 December 2018 and 31 December 2017 are as follows:

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)
<b>Non-derivative financial liabilities</b>						
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	--
<b>Total</b>	<b>574,583,294</b>	<b>604,320,489</b>	<b>248,611,865</b>	<b>164,346,060</b>	<b>191,362,544</b>	<b>--</b>
<hr/>						
31 December 2017	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)
<b>Non-derivative financial liabilities</b>						
Borrowings	255,094,961	292,253,377	60,797,044	85,851,943	145,604,390	--
Trade payables	228,199,406	228,199,406	140,948,794	87,250,612	--	--
Other payables (*)	13,799,282	13,799,282	282,033	12,895,355	621,894	--
<b>Total</b>	<b>497,093,649</b>	<b>534,252,065</b>	<b>202,027,871</b>	<b>185,997,910</b>	<b>146,226,284</b>	<b>--</b>

(\*)Other payables regarding to due to related parties and third parties are included to other payables.

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**22. 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 31 December 2018 and 31 December 2017 is set out in the table below:

	<b>31 December 2018</b>	<b>31 December 2017</b>
USD	5.2609	3.7719
EUR	6.0280	4.5155

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

***Financial Derivative Instruments***

The Group management plans to apply fair value hedge accounting to protect its trade receivables, trade payables and financial borrowings from the effects of changes in foreign exchange rates. If the Group's management performed the related transaction for the 1 July-31 December 2018 accounting period, foreign exchange loss presented in the statement of profit and loss would be TL 22,190,850, loss after tax would be lower by TL 17,308,863 and deferred tax liability would be more than TL 4,881,987.

***Currency position***

As at 31 December 2018 and 31 December 2017 assets and liabilities denominated in foreign currency held by the Group are as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Assets	44,345,742	38,638,737
Liabilities	(233,570,711)	(181,719,143)
<b>Net foreign currency position</b>	<b>(189,224,969)</b>	<b>(143,080,406)</b>



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**22. FINANCIAL RISK MANAGEMENT (continued)**

**Market risk**

*Currency position*

	31 December 2018			31 December 2017		
	TL equivalent	USD	EUR	TL equivalent	USD	EUR
1. Trade receivables	44,046,364	2,205,140	5,382,439	38,621,879	1,973,989	6,904,261
2a. Monetary financial assets, (cash and banks account included)	299,378	18,050	33,911	16,858	1,030	2,873
2b. Non-monetary financial assets	--	--	--	--	--	--
3. Other	--	--	--	--	--	--
<b>4. Current assets (1+2+3)</b>	<b>44,345,742</b>	<b>2,223,190</b>	<b>5,416,350</b>	<b>38,638,737</b>	<b>1,975,019</b>	<b>6,907,134</b>
5. Trade receivables	--	--	--	--	--	--
6a. Monetary financial assets	--	--	--	--	--	--
6b. Non-monetary financial assets	--	--	--	--	--	--
7. Other	--	--	--	--	--	--
<b>8. Non-current assets (5+6+7)</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>9. Total assets (4+8)</b>	<b>44,345,742</b>	<b>2,223,190</b>	<b>5,416,350</b>	<b>38,638,737</b>	<b>1,975,019</b>	<b>6,907,134</b>
10. Trade payables	(13,025,186)	--	(2,160,781)	(11,028,784)	--	(2,442,428)
11. Financial liabilities	(87,829,140)	--	(14,570,196)	(81,932,430)	--	(18,144,708)
12a. Other monetary liabilities	(2,092,372)	(296,468)	(88,368)	--	--	--
12b. Other non-monetary liabilities	--	--	--	--	--	--
<b>13. Current liabilities (10+11+12)</b>	<b>(102,946,699)</b>	<b>(296,468)</b>	<b>(16,819,345)</b>	<b>(92,961,214)</b>	<b>--</b>	<b>(20,587,136)</b>
14. Trade payables	--	--	--	--	--	--
15. Financial liabilities	(126,365,903)	--	(20,963,156)	(88,757,929)	--	(19,656,279)
16 a. Other monetary liabilities	--	--	--	--	--	--
16 b. Other non-monetary liabilities	--	--	--	--	--	--
<b>17. Long-term liabilities (14+15+16)</b>	<b>(126,365,903)</b>	<b>--</b>	<b>(20,963,156)</b>	<b>(88,757,929)</b>	<b>--</b>	<b>(19,656,279)</b>
<b>18. Total liabilities (13+17)</b>	<b>(229,312,602)</b>	<b>(296,468)</b>	<b>(37,782,501)</b>	<b>(181,719,143)</b>	<b>--</b>	<b>(40,243,415)</b>
<b>19. Net assets of off balance sheet derivative items (liability) position (19a-19b)</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>19a. Total amount of assets hedged</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>19b. Total amount of liabilities hedged</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>20. Net foreign monetary assets/(liabilities) position (9+18+19)</b>	<b>(184,966,859)</b>	<b>1,926,723</b>	<b>(32,366,150)</b>	<b>(143,080,406)</b>	<b>1,975,019</b>	<b>(33,336,281)</b>
<b>21. Net foreign currency asset / (liability) position of monetary items (=1+2a+3+5+6a+10+11+12a+14+15+16a)</b>	<b>(184,966,859)</b>	<b>1,926,723</b>	<b>(32,366,150)</b>	<b>(143,080,406)</b>	<b>1,975,019</b>	<b>(33,336,281)</b>
<b>22. Fair value of derivative instruments used in foreign currency hedge</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>23. Export</b>	<b>70,862,222</b>	<b>6,532,997</b>	<b>6,053,878</b>	<b>57,137,288</b>	<b>5,766,344</b>	<b>7,836,832</b>
<b>24. Import</b>	<b>5,899,546</b>	<b>15,045</b>	<b>965,560</b>	<b>18,085,036</b>	<b>869,207</b>	<b>3,279,033</b>

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**22. 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 4.

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:

<b>31 December 2018</b>	<b>Profit/Loss</b>	
	<b>Appreciation of foreign currency</b>	<b>Depreciation of foreign currency</b>
<b>Assumption of devaluation/appreciation by 10% of USD against TL:</b>		
1- Net USD asset / liability	1,013,629	(1,013,629)
2- USD risk averse portion (-)	--	--
<b>3- USD net effect (1+2)</b>	<b>1,013,629</b>	<b>(1,013,629)</b>
<b>Assumption of devaluation/appreciation by 10% of EUR against TL:</b>		
4- Net EUR asset / liability	(19,510,315)	19,510,315
5- EUR risk averse portion (-)	--	--
<b>6- EUR net effect (4+5)</b>	<b>(19,510,315)</b>	<b>19,510,315</b>
<b>Total (3+6)</b>	<b>(18,496,686)</b>	<b>18,496,686</b>
<hr/>		
<b>31 December 2017</b>	<b>Profit/Loss</b>	
	<b>Appreciation of foreign currency</b>	<b>Depreciation of foreign currency</b>
<b>Assumption of devaluation/appreciation by 10% of USD against TL</b>		
1- Net USD asset / liability	744,957	(744,957)
2- USD risk averse portion (-)	--	--
<b>3- USD net effect (1+2)</b>	<b>744,957</b>	<b>(744,957)</b>
<b>Assumption of devaluation/appreciation by 10% of EUR against TL:</b>		
4- Net EUR asset / liability	(15,052,998)	15,052,998
5- EUR risk averse portion (-)	--	--
<b>6- EUR net effect (4+5)</b>	<b>(15,052,998)</b>	<b>15,052,998</b>
<b>Total (3+6)</b>	<b>(14,308,041)</b>	<b>14,308,041</b>

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**23. ADDITIONAL DISCLOSURES THAT ARE REQUIRED 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.

	<b>2018</b>	<b>2017</b>
Net profit / (loss) for the period	(89,219,008)	15,256,414
Tax income / expense	(12,611,764)	5,659,784
Financial income	(127,494,408)	(38,312,641)
Financial expense	247,153,550	110,982,335
Depreciation and amortization expenses (Note 18)	22,803,829	18,898,022
Provision for employment termination benefits (Note 14)	589,918	498,196
Provision for unused vacation liabilities	88,804	1,145,594
<b>EBITDA</b>	<b>41,310,921</b>	<b>114,127,704</b>

**24. EARNINGS / (LOSS) PER SHARE**

	<b>2018</b>	<b>2017</b>
Weighted average number of shares in issue	20,906,976,700	20,906,976,700
Net income or (loss) attributable to the owners of the parent	(89,219,008)	15,256,414
Earnings / (Losses) per share	<b>(0.0043)</b>	<b>0.0007</b>
Earnings / (losses) per diluted shares	<b>(0.0043)</b>	<b>0.0007</b>

**25. EVENTS AFTER THE REPORTING PERIOD**

As explained in the Public Disclosure Platform dated 20 February 2019, within the scope of the Issued Document approved by the Capital Market Board’s decision no 10/221 dated 14 February 2019 the paid-in capital was increased from TL 209,069,767 to 269,069,767 within the framework of the “Procedures and Principles of Wholesale Trading and Sales Transactions” of Borsa İstanbul A.Ş. for the share with a nominal value of TL 1,00, TL 1,15 has been sold to Doğanlar Yatırım Holding A.Ş. within the period specified in the Procedures and Principles of Wholesale Trading and Sales Transactions.

Pursuant to The Procedures and Principles of the Wholesale Purchase Process, the Company's recent shareholding structure after the transaction was as follows:

	<b>After transaction</b>	
	<b>%</b>	<b>TL</b>
Trading on Borsa İstanbul	38,87	104.534.884
Doğanlar Yatırım Holding A.Ş.	25,37	68.250.000
Davut Doğan	5,96	16.047.503
Adnan Doğan	5,96	16.047.484
Şadan Doğan	5,96	16.047.474
İsmail Doğan	5,96	16.047.474
İlhan Doğan	5,96	16.047.474
Murat Doğan	5,96	16.047.474
	<b>100,00</b>	<b>269.069.767</b>

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**25. EVENTS AFTER THE REPORTING PERIOD (continued)**

The Group Management has started negotiations on hedge accounting for currency risk to present its financial results more meaningfully after 30 June 2018.

As a result of the deliberations and evaluations, the Group has completed the documentation and other requirements as at 1 January 2019 and initiated the application of hedge accounting for currency risk.

If the Group management would have started to hedge accounting for currency risk as at 1 July 2018, the net loss figure in the accompanying consolidated financial statements would be TL 17,308,863 less, and the total shareholders' equity would not change.

On 11 March 2019, the Group made a material disclosure in the Public Disclosure Platform in accordance with CMB's resolution dated 11 April 2014 and numbered 11/352:

“The Company's financial statements are reported in accordance with CMB regulations dated 31 December 2018. The shareholders' equity in our Company's financial statements is (-) TL 3,687,958.

The main reason why the equity of our company, which continues its production, sales and operations, to a negative value in its balance sheet as of 31 December 2018 is the statement of profit or loss and the foreign exchange losses that are reflected to our statement of financial position in 2018.

Article 376 of the Turkish Commercial Code No. 6102 “Until 1/1/2023, the calculation of loss of capital within the scope of Article 376 of the Law may not take into account foreign exchange losses arising from foreign currency liabilities not yet fulfilled.” is phrased.

Accordingly, the cumulative foreign exchange loss from banking and commercial purchase transactions is amounting to TL 66,664,849 as at 31 December 2018.

In this scope, the Special Purpose Financial Statement (TCC 376 balance sheet) has been prepared based on the fair value of the brand value in intangible assets and not taking into consideration the foreign currency loss that are not realized pursuant to the CMB's resolution no. 11/352 of 10 April 2014 (decree no. 2014/11).

The Company's equity is determined as TL 77,946,889 in the statement of financial position of the Special Purpose Financial Statements prepared (TCC 376 balance sheet) when considering that the current value of the Company's brand is TL 32,500,000 and the unrealized cumulative foreign exchange loss of TL 66,664,849 is not taken into consideration.

The Company pursuant to Articles 267 and 278 of the VKK, No. 213 has applied to the Tax Office on 20 February 2019 to determine the impairment of the inventory price of TL 7,359,510, a decrease in the economic value of the Company's inventory. The procedures continue under the supervision of the Appreciation Commission.