SASA POLYESTER
SANAYİ A.Ş. AND ITS SUBSIDIARY

CONSOLIDATED FINANCIAL
STATEMENTS AS OF 31 DECEMBER 2019
AND INDEPENDENT AUDITOR’S REPORT

(CONVENIENCE TRANSLATION OF
INDEPENDENT AUDITOR’S REPORT
ORIGINALLY ISSUED IN TURKISH)

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**(CONVENIENCE TRANSLATION OF
INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH)**

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of SASA Polyester Sanayi A.Ş.

A) Report on the Audit of the Consolidated Financial Statements

1) Opinion

We have audited the consolidated financial statements of SASA Polyester A.Ş. ("the Group") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and 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, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Turkish Financial Reporting Standards (TFRS).

2) Basis of Opinion

We conducted our audit in accordance with the Standards on Independent Auditing ("SIA") which is a part of Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("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 are independent of the Group in accordance with the Code of Ethics for Independent Auditors ("Code of Ethics") published by the POA, together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3) Key Audit Matter

Key audit matters are those matters that, in our professional judgement, 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.

Key Audit Matter	**How The Matter Was Addressed In The Audit**
Revenue Recognition Revenue is recognized when the Group has transferred significant risks and rewards of ownership of the goods to the buyer. Due to the nature of group's operations, there are export products whose production is completed, invoiced to the overseas customer or whose sales price has been collected although it has not been delivered. The products in this condition are in the Group's stock areas or on the way as of reporting date. The ownership rights and risks of these non-transferable products can be transferred to the customer according to the terms of the contract. With reference to the above explanations, as a part of sales cut-off principle, recognition of revenue in the correct period is identified as a key audit matter. Please refer to notes 2.7.1 and Note 18 to the financial statements for the Group's disclosures on revenue recognition, including the related accounting policy.	The following audit procedures have been applied for the recording of revenue during the audit: The design and implementation of controls on the revenue process have been evaluated. The Group's sales and delivery procedures have been analyzed. Terms of trade and delivery with respect to contracts made with customers have been examined and the timing of revenue recognition in the financial statements for the different shipment arrangements has been assessed. For substantive audit procedures, special emphasis is given for transactions where the goods billed however revenue has not been earned. The customers with the longest delivery time were identified and a date range was determined and sales lists were provided from the related departments of the Group. Tests have been completed to check the completeness and accuracy of these lists.

3) Key Audit Matter (cont'd)

Key Audit Matter	How The Matter Was Addressed In The Audit
Deferred Tax Assets Calculated for Investment Incentives The Group's investment incentive certificates within the scope of Project-Based Incentive System has the advantages of corporate tax on investment expenditures. Within the scope of these investment incentive documents, there is a deferred tax presence of TL 1,355,157 to be used as of 31 December 2019. Deferred tax calculated for the incentive certificate has been determined as the key audit matter since the accuracy of the expenditures made within the scope of the incentive system taken into account in deferred tax asset is significant and the recoverability of the deferred tax asset is based on estimations and assumptions. Please refer to notes 2.7.13 and 26 to the financial statements for the Group's accounting policy and disclosures on Investment Incentives.	During our audit on the project based investment incentive system, we focused on the validity of deferred tax expenses, the appropriateness of the incentive system and the mathematical accuracy of the calculation and the recoverability of the deferred tax asset calculated. The following audit procedures are implemented accordingly. - Analysis have been performed to understand the deferred tax assets, temporary differences that constitute the basis of these assets and the scope of investment incentives. - The validity of the expenditures subject to the deferred tax calculation is ensured and the accuracy of the deferred tax calculation. - In order to examine the impact on corporate tax calculation and investment incentive practices, tax specialists were included in the audit team which were in the same audit network of our organization. The measurement of the related deferred tax assets reviewed and evaluated by our tax experts. -The business model and the significant management estimates to ensure that the investment incentives can be used in the future are examined by considering the following: • Related business model's mathematical accuracy is checked. • Sales tonnage and price assumptions used in the model are compared with previous year performances and independent data sources. • The foreign exchange rate forecasts of the years used in the business model are compared with the exchange rate estimates and independent data sources in the approved budget / long term plans In addition to these, we have evaluated the sufficiency of the disclosures in Note 27 as per TAS 12.

Deloitte.

3) Key Audit Matter (cont'd)

Key Audit Matter	How The Matter Was Addressed In The Audit
Capitalization of Borrowing Costs As explained in Note 11, the Group capitalizes qualified borrowing costs, including significant exchange rate fluctuations for main investment projects in progress, including investments under constructions. In accordance with TAS 23, since the cost of capitalization shall be capitalized and financing costs which do not meet the capitalization criteria is expensed, this issue has been determined as key audit matter.	The accuracy and efficiency of the controls for the process of capitalizing the finance expense have been tested. In addition, substantive testing of capitalized financing costs with their supporting documents, recalculation of qualified exchange rate differences, recalculation of interest expense and accounting of the amounts that exceeds the limit is performed. Understanding the nature of the capitalized costs and their evaluation of whether they are compatible with the scope of TAS 23 is also performed through substantive testing procedures.

4) 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 TFRS, 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 financial reporting process.

5) Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Responsibilities of independent auditors in an independent 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 the standards on auditing issued by Capital Markets Board and SIA 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.

5) Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (cont'd)

As part of an audit in accordance with the standards on auditing issued by Capital Markets Board and SIA, 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) Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 398 of the Turkish Commercial Code No. 6102 ("TCC"), the auditor's report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Group on 10 March 2020.

In accordance with paragraph four of the Article 402 of TCC, nothing has come to our attention that may cause us to believe that the Group's set of accounts and financial statements prepared for the period 1 January - 31 December 2019 does not comply with TCC and the provisions of the Group's articles of association in relation to financial reporting.

In accordance with paragraph four of the Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

The engagement partner on the audit resulting in this independent auditor's report is Osman Arslan.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Osman Arslan, SMMM
Partner

Istanbul, 10 March 2020

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SASA POLYESTER SANAYİ A.Ş. AND ITS SUBSIDIARY

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

		Current Period	**Prior Period**
		(Audited)	**(Audited)**
	Notes	**31 December 2019**	**31 December 2018**
ASSETS			
Current Assets		**1,611,781**	**1,483,362**
Cash and Cash Equivalents	3	101,348	28,272
Financial Investments	4	27,848	28,139
Trade Receivables	5	497,020	460,600
- Trade Receivables From Third Parties	5	*397,564*	*388,694*
- Trade Receivables From Related Parties	28	*99,456*	*71,906*
Other Receivables	7	4,945	331,978
- Other Receivables From Third Parties	7	*4,945*	*2,002*
- Other Receivables From Related Parties	28	-	*329,976*
Inventories	8	751,535	560,647
Derivative Instruments	29	1,042	-
Prepaid Expenses	9	12,137	6,176
Other Current Assets	16	215,906	67,550
Non - Current Assets		**6,142,400**	**2,667,768**
Other Receivables	7	114	114
Investment Properties	10	3,047	3,198
Property, Plant and Equipment	11	4,629,676	2,169,390
Intangible Assets	12	1,370	1,098
Prepaid Expenses	9	158,638	196,282
Deferred Tax Asset	26	1,349,555	297,686
TOTAL ASSETS		**7,754,181**	**4,151,130**
LIABILITIES			
Current Liabilities		**3,380,824**	**1,188,257**
Short - Term Borrowings	4	2,589,848	855,100
- Short - Term Borrowings	*4*	*2,195,508*	*639,556*
- Short - Term Portion of Long - Term Borrowings	*4*	*391,108*	*215,544*
- Lease Liabilities	4	*3,232*	-
Trade Payables	5	677,847	316,577
- Trade Payables to Third Parties	5	*677,847*	*316,577*
Payables Related to Employee Benefits	6	10,189	7,206
Other Payables	7	12,216	3,646
- Other Payables to Third Parties	7	*12,216*	*3,646*
Deferred Income	7	89,423	1,624
Current Tax Liabilities	26	685	3,227
Short - Term Provisions		616	877
-Other Short - Term Provisions	*13*	*616*	*877*
Non - Current Liabilities		**1,788,256**	**1,227,643**
Long - Term Borrowings	4	1,739,795	1,186,329
'- Long-Term Borrowings from Third Parties	*4*	*1,724,287*	*1,186,329*
- Lease Liabilities	4	*15,508*	-
Long - Term Provisions	15	48,461	40,920
-Long - Term Provisions for Employee Benefits	*15*	*48,461*	*40,920*
Deferred Tax Liability	26	-	394
EQUITY		**2,585,101**	**1,735,230**
Share Capital	17	830,000	605,000
Adjustments to Share Capital	17	13	13
Repurchased Shares	17	(2,594)	(1,594)
Restricted Reserves Appropriated from Profit	17	191,559	28,306
Other Comprehensive Income (Expenses) That Will Not Be Reclassified to Profit or Loss	17	508,483	508,483
-Remeasurement Losses on Defined Benefit Plans	17	*(4,109)*	*(4,109)*
-Revaluation Gain on Property, Plant and Equipment	17	*512,592*	*512,592*
Prior Years' Profit or Losses	17	(6,540)	(2,384)
Net Profit or Loss for the Period	17	1,064,180	597,406
TOTAL LIABILITIES		**7,754,181**	**4,151,130**

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

SASA POLYESTER SANAYİ A.Ş. AND ITS SUBSIDIARY

AUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2019

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

	Notes	(Audited) 1 January - 31 December 2019	(Audited) 1 January - 31 December 2018
Revenue	18	2,763,745	2,178,954
Cost of Sales (-)	18	(2,448,314)	(1,704,425)
GROSS PROFIT		**315,431**	**474,529**
General Administrative Expenses (-)	19	(38,729)	(24,551)
Marketing Expenses (-)	19	(85,226)	(75,349)
Research and Development Expenses (-)	19	(3,897)	(1,484)
Other Income from Operating Activities	21	221,964	608,311
Other Expenses from Operating Activities (-)	21	(163,467)	(430,947)
OPERATING PROFIT		**246,076**	**550,509**
Income from Investing Activities	22	4,674	3,671
Expenses from Investing Activities (-)	22	(1,387)	(4,642)
OPERATING PROFIT BEFORE FINANCE INCOME / (EXPENSE)		**249,363**	**549,538**
Finance Income	23	76,842	59,361
Finance Expenses (-)	24	(313,603)	(357,912)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**12,602**	**250,987**
Tax Income / (Expense) from Continuing Operations (-)		**1,051,578**	**346,419**
- Current Tax Expense (-)	26	(685)	(3,227)
- Deferred Tax (Expense) / Income (-)	26	(2,005)	48,757
- Deferred Tax Income with Incentive Certificate	26	1,054,268	300,889
PROFIT FOR THE YEAR		**1,064,180**	**597,406**
Other comprehensive income/expense		-	-
TOTAL COMPREHENSIVE INCOME		**1,064,180**	**597,406**
Total Comprehensive Income Attributable to:			
Owners of the Company		1,064,180	597,406
Non - Controlling Interests		-	-
Profit per Share	27	1,2821	0,7198
Total Comprehensive Income Attributable to:			
Owners of the Company		1,064,180	597,406
Non - Controlling Interests		-	-

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

SASA POLYESTER SANAYİ A.Ş. AND ITS SUBSIDIARY

AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2019

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

					Accumulated Other Comprehensive Income or Expenses That Will Not Be Reclassified Subsequently to Profit or Loss			Retained Earnings		
(Audited)	Notes	Share Capital	Share Capital Inflation Adjustments	Treasury Shares	Gain on Revaluation of Property, Plant and Equipment	Loss on Remeasurement of Defined Benefit Plans	Restricted Reserves Appropriated from Profit	Accumulated Losses	Net Profit for the Year	Total
1 January 2018		**412,500**	**13**	**(1,594)**	**512,592**	**(4,109)**	**21,243**	**(6,387)**	**203,566**	**1,137,824**
Transfers	**17**	192,500	-	-	-	-	7,063	4,003	(203,566)	-
Total Comprehensive Income		-	-	-	-	-	-	-	597,406	597,406
31 December 2018	**17**	**605,000**	**13**	**(1,594)**	**512,592**	**(4,109)**	**28,306**	**(2,384)**	**597,406**	**1,735,230**
(Audited) **1 January 2019**	**17**	**605,000**	**13**	(1,594)	**512,592**	**(4,109)**	**28,306**	**(2,384)**	**597,406**	**1,735,230**
Transfers	**17**	225,000	-	-	-	-	163,253	209,153	(597,406)	-
Dividends	**17**	-	-	-	-	-	-	(209,153)	-	(209,153)
Total Comprehensive Income		-	-	-	-	-	-	-	1,064,180	1,064,180
Loss on Repurchase Transactions on Shares	**17**	-	-	(1,000)	-	-	-	(4,156)	-	(5,156)
31 December 2019	**17**	**830,000**	**13**	**(2,594)**	**512,592**	**(4,109)**	**191,559**	**(6,540)**	**1,064,180**	**2,585,101**

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

SASA POLYESTER SANAYİ A.Ş. AND ITS SUBSIDIARY

AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD 1 JANUARY-31 DECEMBER 2019

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

	Notes	Current Period (Audited) 1 January - 31 December 2019	Prior Period (Audited) 1 January - 31 December 2018
Cash Flows From Operating Activities:			
Profit For The Period Before Tax from Continuing Operations		**12,602**	**250,987**
Adjustment for the Period Net Profit Reconciliation		**302,682**	**361,949**
Adjustments Related To Amortization and Depreciation	10,11,12	40,736	12,782
Adjustments Related to Interest Income/Expense		111,139	8,249
Adjustments Related to Interest Expense	24	*129,710*	*22,125*
Adjustments Related to Interest Income	23	*(19,146)*	*(20,562)*
Unearned Financial Income From Credit Sales		*575*	*6,686*
Adjustment Related to the Loss / (Gain) on Disposal of Tangible Assets		(2,996)	1,247
Adjustment Related to the Loss / (Gain) on Disposal of Tangible Assets	*22*	*(2,996)*	*1,247*
Adjustments Related to Provisions		13,836	11,227
Adjustments Related to Provisions for Employee Benefits	*15*	*13,836*	*11,227*
Adjustments Related to General Provisions for Possible Risks	13	152	197
Adjustments Related to Valuation of Derivative Instruments	29	(1,042)	-
Adjustments Related to Impairment Loss		510	-
Adjustments Related to Impairment Loss on Receivables	5	*510*	-
Adjustments Related to Unrealized Exchange Difference	4	140,347	328,247
Changes in Working Capital:		**(72,186)**	**(318,487)**
Adjustsments related to (Increase) / Decrease in Trade Receivables		(42,171)	(88,193)
Increase in Trade Receivables from Third Parties		*(14,621)*	*(27,960)*
Decrease / (Income) in Trade Receivables from Related Parties		*(27,550)*	*(60,233)*
Adjustments Related to (Increase) / Decrease in Operational Other Receivables		(1,538)	41
(Increase) / Decrease in Other Receivables		*(1,538)*	*41*
Increase in Inventory Increase		(191,823)	(294,233)
Decrease / (Increase) in Prepaid Expenses		(4,714)	(4,749)
Increase in Other Current Assets		(166,500)	(16,195)
Increase in Trade Payables to Third Parties		235,621	87,637
Increase / (Decrease) in Other Payables		8,157	(1,344)
Increase / (Decrease) in Deferred Income		87,799	(3,725)
Increase in Payables Related to Employee Benefits		2,983	2,274
Operational Cash Flow:		**243,098**	**294,449**
Payments Related to Provisions of Employee Benefits	15	(6,295)	(5,055)
Taxes Paid	26	(3,227)	(17,328)
Net Cash Profit From Operational Acvitivies		**233,576**	**272,066**
Cash Flows from Investing Activities:			
Payments for Purchase of Property, Plant and Equipment		(2,113,657)	(984,795)
Cash Outflow from Purchase of Property, Plant and Equipment and Intangible Assets	11-12	*(2,113,657)*	*(984,795)*
Proceeds from Sales of Property, Plant and Equipment and Intangible Assets	11-22	4,461	5,062
Proceeds from Sales of Property, Plant and Equipment		*4,461*	*5,062*
Proceeds from Sale of Non-Current Assets Held for Investment	10	-	2,491
Net Cash Used in Investing Activities		**(2,109,196)**	**(977,242)**
Cash Flows from Financing Activities:			
Proceeds from Bank Loans	4	4,481,199	1,429,901
Cash Inflow from Loans	*4*	*4,481,199*	*1,429,901*
Cash Outflow on Loan Payments	4	(2,550,112)	(718,144)
Cash Outflow on Loan Repayments	*4*	*(2,550,112)*	*(718,144)*
Interest Paid	*4*	(122,651)	(54,283)
Interest Received	23	19,146	20,562
Dividends Paid	17	(209,153)	-
Net Increase/Decrease in Other Receivables from Related Parties	28	329,976	(6,514)
Other Cash Outflow	4	291	(23,007)
Net Cash Generated From Financing Activities		**1,948,696**	**648,515**
NET CHANGE IN CASH AND CASH EQUIVALENTS		73,076	(56,661)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	3	28,272	84,933
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	3	**101,348**	**28,272**

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

NOTE 1 - ORGANIZATION AND OPERATIONS OF THE GROUP

Sasa Polyester Sanayi A.Ş. (“the Group) was incorporated on 8 November 1966 in Adana. The Group is mainly engaged in the production and marketing of polyester fiber, yarns and related products and polyester chips. The Group is a subsidiary of Erdemoğlu Holding A.Ş. (“Erdemoğlu Holding”) and accordingly its ultimate parent Group is Erdemoğlu Holding. Shares of Sasa Polyester Sanayi A.Ş. are quoted on the Borsa Istanbul A.Ş.

The address of the registered office is:

Yolgeçen Mahallesi Turhan Cemal Beriker Bulvarı No: 559 01355 Seyhan / Adana.

As of 31 December 2019, number of employees of the Company is 1,978 (31 December 2018: 1,512).

Subsidiary

The Company has founded, Sasa Dış Ticaret A.Ş ("the Subsidiary"), with TL 2,000 paid in capital owning 100% of shares in accordance with the Board of Directors decision numbered 24 and dated 27 August 2015, in order to gain an effective structure to the Group's export operations. Sasa and its subsidiary, together will be referred to as the “Group”.

Approval of Consolidated Financial Statements

Board of Directors has approved the consolidated financial statements and delegated authority for publishing it on 10 March 2020. General Assembly has the authority to modify the financial statements.

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

<u>Statement of Compliance in TFRS</u>

The accompanying 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 was published in the Official Gazette No:28676 on 13 June 2013. The accompanying financial statements are prepared based on the Turkish Financial Reporting Standards (“TFRS”) that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority (“POA”) under Article 5 of the Communiqué.

The consolidated financial statements and disclosures have been prepared in accordance with the “Announcement on TAS Taxonomy” and the resolution of CMB about the Illustrations of Financial Statements and Application Guidance published on 15 April 2019.

The financial statements have been prepared on the historical cost basis except for the revaluation of lands and derivative instruments. In determining the historical cost, the fair value of the amount paid for the assets is generally taken as basis.

<u>Currency Used</u>

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). The results and financial position of each entity are expressed in which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Presentation (cont'd)

Preparation of Financial Statements in Hyperinflationary Economies

In accordiance with the communique issued by CMB, for companies that operate in Turkey and prepare their financial statements applying Turkish Accounting Standards, it is decided not to apply inflation accounting from 1 January 2005 which is published on 17 March 2005 numbered 11/367. Accordingly, as of 1 January 2005 No:29 " Financial reporting in Hyperinflationary Economies" ("TMS 29") was not applied.

Comparative Information and Reclassification of Prior Period Consolidated Financial Statements

Consolidated financial statements of the Group have been prepared comparatively with the prior period in order to give information about financial position and performance. In order to maintain consistency with current year consolidated financial statements, comparative information is reclassed and significant changes are disclosed if necessary. In the current year, the Group has also made some reclassifications in the prior year's consolidated financial statements. The nature, reason and the amounts of reclassification are described below:

- In 2018, the Group presented separetely in the statement of cash flows, trade payables for and advances given for the purchase of property, plant and equipment amounting to TL 47,629 and TL 32,538 respectively. In the current period, Group Management net off these amounts in the statement of cash flows.

Going Concern

The consolidated financial statements are prepared on the going concern basis as the directors are confident in the strength of the Group's business model and risk exposures and the Group's ability to maintain sufficient liquidity levels. As of 31 December 2019 the Group's short-term liabilities exceed its current assets by TL 1,769,043 thousand basically because of the effect of the loan covenants disclosed in Note 4. The management has assessed that this amount in the light of current conditions and expected forecasts and have concluded that this is not indicative of a material uncertainty which would cast significant doubt on the Group's ability to continue as a going concern. While reaching this conclusion, agreements that the management has reached as a result of negotiations with the banks, the Group's EBITDA performance and cash generation, as well as the introduction of new investments, and the cash flow estimates that will emerge based on expectations regarding the production and sales volume have been effective.

Basis of the Consolidation

As of 31 December 2019 and 2018, the details of subsidiary are as follows:

	31 December 2019	**31 December 2018**
Sasa Dış Ticaret A.Ş.	100%	100%

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Presentation (cont'd)

Basis of the Consolidation (cont'd)

The consolidated financial statements incorporate the financial statements of the Group and entities controlled by the Group and its subsidiaries. Control is achieved when the Group.

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

In case of a situation or event that may cause any change in at least one of the criteria listed above, the Company reevaluates whether it has control power over its investment.

When the Company 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 Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company 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.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Group ceases to control the subsidiary.

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.2 Changes in Accounting Policies

Significant changes in accounting policies are applied retrospectively and prior period financial statements are restated. There are no impact of the changes in the standards in the current year on the consolidated financial statemens of the Group.

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.3 Changes in the Accounting Policies and Errors

The accounting policy changes arising from the first time application of a new standard are applied retrospectively or prospectively in accordance with the transitional provisions, if any. The changes that take place of any transitional provision, significant changes made optional in accounting policies or determined accounting errors are applied retrospectively by restating prior period financial statements. If changes in accounting estimates are related to only one period, they are applied both in the current period when the amendment is made and for the future periods, both in the current period and in the future.

2.4 Critical Decisions and Assumptions of the Group in Applying Accounting Policies

The Group makes estimations and assumption for the future, while praparing the consolidated financial statements. Accounting estimations rarely give the true/real results. In the following financial reporting period, estimates and assumptions that may cause significant adjustments in the carrying values of assets and liabilities are stated below:

2.4.1 Useful life of tangible and intangible assets

The Group allocates depreciation based on the useful lives stated in Note 2.7.3 and 2.7.4 over fixed assets (Note 10, Note 11 and Note 12).

2.4.2 Deferred tax

The Group recognizes deferred tax on the temporary timing differences between the carrying amounts of assets and liabilities in the financial statements prepared in accordance with TFRS and statutory financial statements which is used in the computation of taxable profit. The related differences are generally due to the timing difference of the tax base of some income and expense items between statutory and TFRS financial statements. The Group has deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, which could reduce taxable income in the future periods. All or partial amounts of the realizable deferred tax assets are estimated in current circumstances. The main factors which are considered include future earnings potential; cumulative fiscal losses in recent years; history of loss carry-forwards and other tax assets expiring. (Note 26).

2.4.3 Provision for doubtful receivables

Provision for doubtful receivables is the amount that the management believes will meet future losses related to receivables that are at risk of non-collection under different economic conditions in the future according to the existing but reasonable and supportable forward-looking assumptions. While evaluating whether the receivables are impaired, past performances, credibility in the market and performance of the balance sheet date until the approval date of the financial statements are taken into consideration. The related provisions are included in Note 5 as of the balance sheet date.

2.4.4 Liabilities related to employee benefits

The Company makes various actuarial assumptions such as discount rate, inflation rate, rate of increase in real wages, and the possibility of withdrawal by itself in the calculation of liabilities related to employee benefits. Details of the provisions for employee benefits are disclosed in Note 15.

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.4 Critical Decisions and Assumptions of the Group in Applying Accounting Policies (cont'd)

2.4.5 Provisions for litigation

The Group Management determines the provisions related to the ongoing lawsuits by taking into consideration the opinions of the Legal Counselor and the non-Group expert attorneys, and determines the probable losses arising from the best estimates of the management. As of the balance sheet date, the legal provisions are presented in Note 13.

2.4.6 Impairment of assets

In each reporting period, the Group management implements an impairment test for events or events that indicate that it is not possible to recover the carrying amount for assets subject to depreciation and amortization. For the purposes of assessing impairment, assets are grouped at the lowest level of separately identifiable cash flows (cash-generating units). As a result of the impairment study performed by the Group Management, an additional impairment is not foreseen except for provision for impairment on non-financial assets as of the reporting date.

2.4.7 Impairment of financial assets

The Group makes assumptions about the default risk of the related assets and the expected credit loss rate when assessing the impairment of financial assets. While making these assumptions and judgments as of each reporting period, the Group is based on the Group's past experiences and takes into consideration current market conditions and future expectations for the market.

2.4.8 Fair value of derivative financial instruments

As of the reporting date, the Group evaluates derivative financial instruments based on the estimated market value estimates that are calculated based on the exchange rate and interest estimates on the date of realization (Note 31).

2.5 Offsetting

Financial assets and liabilities that are legally entitled to offsetting the net amount or collection of the fulfillment of the obligation to obtain or asset is not possible if it can take place simultaneously, they are shown with their net values in the balance sheet.

2.6 New and Revised Turkish Financial Reporting Standards

As of summarized 1 January 2019 following the accounting policies adopted in the preparation of financial statements for the end of the fiscal year as of 31 December 2019 is available new and amended TFRS standards and TFRS those used in the previous year except reviews and has been applied on a consistent basis.

The effects of these standards and interpretings on the Group's financial status and performance are described in the relevant paragraphs.

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.6 New and Revised Turkish Financial Reporting Standards (cont'd)

Amendments that are mandatorily effective from 2019

TFRS 16	*Leases*
TFRS Intepretation 23	*Uncertainty over Income Tax Treatments*
Amendments to TAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to TAS 19	*Amendments to Employee Benefits*
Annual Improvements to TFRS Standards 2015–2017 Cycle	Amendments to TFRS 3, TFRS 11, TAS 12, TAS 23

TFRS 16 Leases

General impact of application of TFRS 16 Leases

TFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. TFRS 16 supersedes the current lease guidance including TAS 17 Leases and the related Interpretations for accounting periods beginning on or after 1 January 2019. The date of initial application of TFRS 16 for the Group is 1 January 2019 retrospectively taking into account the cumulative effect in the financial statements.

Within the scope of the simplified transition application of the method defined in the relevant standard, it is not necessary to restate the financial statements' comparative information and previous years' profits.

In contrast to lessee accounting, TFRS 16 substantially carries forward the lessor accounting requirements in TAS 17.

Impact of the new definition of a lease

The Group made use of the practical expedient available on transition to TFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with TAS 17 and TFRS Interpretation 4 continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. TFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Group applied the definition of a lease and related guidance set out in TFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). The Group carried out a project for the implementation of TFRS 16. As a result of the project, it was concluded that the new lease definition made in TFRS 16 will not significantly affect the scope of the agreements that the Group considers as lease agreements.

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.6 New and Revised Turkish Financial Reporting Standards (cont'd)

Amendments that are mandatorily effective from 2019 (cont'd)

TFRS 16 Leases (continued)

Impact on lessee accounting

Operating leases

TFRS 16 changes how the Group accounts for leases previously classified as operating leases under TAS 17, which were off-balance sheet.

On initial application of TFRS 16, for all leases (except as noted below), the Group has:

a) Recognised right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
b) Recognised depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
c) Separated the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under TAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under TFRS 16, right-of-use assets are tested for impairment in accordance with TAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group opted to recognise a lease expense on a straight-line basis as permitted by TFRS 16.

As of 1 January 2019, TFRS 16 has no impact on the Group's consolidated financial statements.

Finance leases

The main differences between TFRS 16 and TAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. TFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by TAS 17.

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.6 New and Revised Turkish Financial Reporting Standards (cont'd)

Amendments that are mandatorily effective from 2019 (cont'd)

TFRS 16 Leases (continued)

Impact on Lessor Accounting

Under TFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, TFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

TFRS Interpretation 23 Uncertainty over Income Tax Treatments

This Interpretation addresses the application of recognition and measurement provisions under TAS 12 when there is uncertainty over income tax treatments.

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

This amendment clarifies that an entity applies TFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

Amendments to TAS 19 Employee Benefits

The Amendments to TAS 19 Employee Benefits address the impact of the changes in defined benefit plans (one of the two benefits provided after employment relationship is ended defined benefit plans and defined contribution plans) to the recognition of the defined benefit plans, and TAS 19 has been amended.

Annual Improvements to TFRS Standards 2015–2017 Cycle

Annual Improvements to TFRS Standards 2015–2017 Cycle include amendments to TFRS 3 Business Combinations and TFRS 11 Joint Arrangements in when a party that participates in, but does not have joint control of, TAS 12 Income Taxes; income tax consequences of dividends in profit or loss, and TAS 23 Borrowing Costs in capitalized borrowing costs.

These standards, amendments and improvements have no impact on the consolidated financial position and performance of the Group.

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.6 New and Revised Turkish Financial Reporting Standards (cont'd)

New and revised TFRSs in issue but not yet effective

The Group has not yet adopted the following standards and amendments and interpretations to the existing standards:

TFRS 17	Insurance Contracts
Amendments to TFRS 3	Definition of a Business
Amendments to TMS 1 ve TMS 8	Definition of Material
Amendments to TFRS 9, TMS 39 ve TFRS 7	Interest Rate Benchmark Reform

<u>TFRS 17 Insurance Contracts</u>

TFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. TFRS 17 supersedes TFRS 4 Insurance Contracts as of 1 January 2021.

<u>Amendments to TFRS 3 Definition of a Business</u>

The definition of "business" is important because the accounting for the acquisition of an activity and asset group varies depending on whether the group is a business or only an asset group. The definition of "business" in TFRS 3 Business Combinations standart has been amended. With this change:

- By confirming that a business should include inputs and a process; clarified that the process should be essential and that the process and inputs should contribute significantly to the creation of outputs.
- The definition of a business has been simplified by focusing on the definition of goods and services offered to customers and other income from ordinary activities.
- An optional test has been added to facilitate the process of deciding whether a company acquired a business or a group of assets.

<u>Amendments to TAS 1 and TAS 8 Definition of Material</u>

The amendments in Definition of Material (Amendments to TAS 1 and TAS 8) clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.

<u>Amendments to TFRS 9, TAS 39 and TFRS 7 Interest Rate Benchmark Reform</u>

The amendments clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Valuation Principles Applied / Accounting Policies

Valuation principles and accounting policies applied in the preparation of the Group's financial statements are as follows:

2.7.1 Revenue

In accordance with TFRS 15 ”Revenue Standard from Customer Contracts”, effective from 1 January 2018, the Group recognizes revenue in the financial statements in the following five-stage model. The Revenue consists of the sale of fibers, textile chips, polyester, yarn and other side products sold directly to the end user in the domestic and foreign markets.

The Group recognises revenue based on the following five principles:

a) Determining client agreements,
b) Determining performance obligations in agreements,
c) Determining transaction price in agreements,
d) Distributing transaction price to performance obligations in agreements,
e) Recognising the revenue as each performance obligation is met.

Group recognises an agreement made with the client as revenue:

a) Parties to the agreement approved the agreement (in writing, orally or in other means in line with commercial practices) and committed to meet their respective obligations,
b) Group can define the rights of each party concerning the goods or services to be transferred,
c) Group can define payment conditions concerning the goods or services to be transferred,
d) The agreement is commercial in essence.
e) It is possible that the Group will collect money in return for goods and services to be transferred to the client. When evaluating whether a price is likely to be collected, the entity takes into account only the customer's ability to pay this amount on the due date and the intention to do so.

<u>Dividend, interest and rental income</u>

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Group's interest income from investments with maturities is recognized in finance income, and interest income from sales with maturities arising from trade receivables is recognized in revenue.

Rental income from investment properties is recognized on a straight-line basis over the term of the relevant lease.

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Valuation Principles Applied / Accounting Policies (cont'd)

2.7.2 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on weighted average basis. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale.

2.7.3 Property, Plant and Equipment

Revaluation Method

The Group's lands used in production of iron ore and high silicon flat steel are stated in the balance sheet at their fair value amounts. Any increase arising from the revaluation of the existing assets is recorded under the revaluation reserve, in the shareholders' equity. A decrease in carrying amount arising on the revaluation of assets is charged to the income statement to the extent that it exceeds the balance in the revaluation reserve that is related to the previous revaluation.

Any revaluation increase arising on the revaluation of such lands is recognized in other comprehensive income and accumulated in equity, except to the extent that it reserves a revaluation decrease for the same assets previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such real estate is recognized in 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.

On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation fund to retained earnings, unless the asset is derecognized.

Cost Method

Property, plant and equipment other than lands are carried at cost less accumulated depreciation and any accumulated impairment losses.

The rates that are used to depreciate the fixed assets are as follows:

	YEAR
Land and Land Improvements	5-25
Buildings	18-40
Machine, Plant and Equipment	15-25
Vehicles	5
Furniture and Fixtures	5-10

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.7.3 Property, Plant and Equipment (cont'd)

Cost Method (cont'd)

Properties in the course of construction for administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs are capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Leased assets are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.7.4 Intangible Assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired seperately are carried at cost less accumulated impairment losses.

	YEAR
Rights	10
Development costs	5

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.7.4 Intangible Assets (cont'd)

Internally-generated intangible assets – research and development expenditure

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

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

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized as an expense in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (10 years).

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.7.4 Intangible Assets (cont'd)

Computer software (cont'd)

Computer software development costs recognized as non-current assets are amortized over their estimated useful lives.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

2.7.5 Leases

The Group as Lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.7.5 Leases (cont'd)

The Group as Lessee (cont'd)

The lease liability is presented as a separate line in the consolidated statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under TAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.7.5 Leases (cont'd)

The Group as Lessee (cont'd)

The Group applies TAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, TFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient.

The Group as Lessor

The Group enters into lease agreements as a lessor with respect to some of its investment properties. The Group also leases to retailers the necessary equipment for the presentation of shoes, customer customization and testing process, and equipment produced by the Group.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Group applies TFRS 15 to allocate the consideration under the contract to each component.

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.7.6 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

When the Group borrows funds specifically for the purpose of the qualifying assets, the amount of borrowing costs eligible for capitalization is the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

Financial investment income obtained by using a part of the investment loan, which has not yet been spent, temporarily in financial investments is offset from the borrowing costs suitable for capitalization. The amount of borrowing costs capitalized during the current period is given in the Note 11.

All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

2.7.7 Financial Instruments

Financial instruments are recognized in the Group's financial statements when the Group is a party to the contractual provisions of the instrument. Financial assets and liabilities are initially measured at fair value. Transaction costs directly attributable to the acqusition or release of financial assets and liabilities (expect for financial assets and liabilities at fair value through profit or loss) are derecognized in the fair value of the financial assets and liabilities at initial recognition at the fair value of the financial assets and liabilities. Transaction costs directly related to the acqusition or issuance of financial assets and liabilities are directly recognized in profit or loss.

Financial Assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

The Group classifies its financial assets as (a) Business model used for managing financial assets, (b) financial assets subsequently measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss based on the characteristics of contractual cash flows. The Company reclassifies all financial assets effected from the change in the business model it uses for the management of financial assets. The reclassification of financial assets is applied prospectively from the reclassification date. In such cases, no adjustment is made to gains, losses (including any gains or losses of impairment) or interest previously recognized in the financial statements.

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.7.7 Financial Instruments (cont'd)

Financial Assets (cont'd)

Classification of financial assets

Financial assets that provide the following conditions are subsequently measured over the amortized costs:

- The financial asset, a business model aimed at collecting contractual cash flows; and
- The contractual terms for the financial entity lead to cash flows that contain only interest payments arising from the principal and principal balance on certain dates.

Financial assets that provide the following conditions are measured by reflecting the fair value change to other comprehensive income:

- Financial assets, contractual cash flows, and a business model aimed at selling the financial asset; and
- The contractual terms for the financial entity lead to cash flows that contain only interest payments arising from the principal and principal balance on certain dates.

If a financial asset is not measured over the amortized cost or the fair value change is reflected in other comprehensive income, the fair value change is measured by profit or loss.

For the first time in obtaining financial statements, the group may be offered a non-reversible preference for the subsequent changes in the fair value of the investment to the equity tool which is not retained for commercial purposes in other comprehensive income.

(i) Amortized cost and effective interest method

Interest income for the financial assets shown over the amortized cost is calculated using the effective interest method. The effective method of interest is to calculate the amortized cost of a borrowing agent and distribute interest income to the relevant period. This income is calculated by applying the effective interest rate to the gross book value of the financial asset except the following:

(a) Financial assets with a low credit value when purchased or created. For such financial assets, the business applies the effective interest rate corrected by credit to the redeemed cost of the financial asset for the first time since being taken to financial statements.
(b) Financial assets that are not a financial asset with a credit impairment when purchased or created, but subsequently become a credit-impairment financial asset. For such financial assets, the business applies the effective interest rate to the redeemed cost of the asset during subsequent reporting periods.

Interest income, redeemed costs in subsequent posting, and fair value change are accounted for by using the effective interest method for borrowing vehicles projected to other comprehensive income. Interest income is accounted for in profit or loss and is shown in the "financing revenues – Interest income" item (Note 23).

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.7.7 Financial Instruments (cont'd)

Financial Assets (cont'd)

Classification of financial assets (cont'd)

(ii) Financial assets at FVTOCI

The financial assets ((i) – (iii), which do not meet the criteria of measurement by reflecting on the redeemed costs or the other comprehensive income of the fair value change, are measured by the profit or loss of the fair value exchange.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy).

Foreign currency gain and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Especially,

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other gains and losses' line item;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss in the 'other gains and losses' line item. Other exchange differences are recognised in other comprehensive income;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss; and
- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income.

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.7.7 Financial Instruments (cont'd)

Financial Assets (cont'd)

Classification of financial assets (cont'd)

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as financial guarantee contracts. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group utilizes a simplified approach for trade receivables, contract assets and *lease receivables* that does not have significant financing component and calculates the allowance for impairment against the lifetime ECL of the related financial assets.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows (all cash-deficiencies) that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate (or credit-based adjusted effective interest rate for financial assets with credit-value impairment when purchased or incurred).

Derecognition of financial assets

The Group derecognises 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 entity.

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.7.7 Financial Instruments (cont'd)

Financial Assets (cont'd)

<u>Derecognition of financial assets (cont'd)</u>

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial Liabilities

Financial liabilities are classified as at FVTPL on initial recognition. On initial recognition of liabilities other than those that are recognised at FVTPL, transaction costs directly attributable to the acquisition or issuance thereof are also recognised in the fair value.

A financial liability is subsequently classified at amortized cost except:

a) Financial liabilities at FVTPL: These liabilities including derivative instruments are subsequently measured at fair value.
b) Financial liabilities arising if the transfer of the financial asset does not meet the conditions of derecognition from the financial statements or if the ongoing relationship approach is applied: When the Group continues to present an asset based on the ongoing relationship approach, a liability in relation to this is also recognised in the financial statements. The transferred asset and the related liability are measured to reflect the rights and liabilities that the Group continues to hold. The transferred liability is measured in the same manner as the net book value of the transferred asset.
c) A contingent consideration recognized in the financial statements by the entity acquired in a business combination where TFRS 3 is applied: After initial recognition, the related contingent consideration is measured as at FVTPL.

The Group does not reclassify any financial liability.

<u>Derecognition of financial liabilities</u>

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.7.7 Financial Instruments (cont'd)

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, options and interest rate swaps. Further details of derivative financial instruments are disclosed in Note 29 and Note 30.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both legal right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge accounting

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations as appropriate. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again. The Group designates the full change in the fair value of a forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving forward contracts.

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.7.8 The Effects of Foreign Exchange Rate Changes

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 Group, and the presentation currency for the consolidated financial statements.

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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at 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 on foreign currency borrowings relating 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 those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies); and
- 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.

2.7.9 Earning Per Share

Profit per share is determined by dividing net profit by the weighted average number of shares that have been outstanding during the period concerned.

Groups distributing shares of stock to existing shareholders from retained earnings and allowable reserves "bonus shares" to increase their capital. In calculating the earnings per share, these bonus shares are considered as issued shares. Therefore, the weighted average number of shares used in the calculation of earnings per share is calculated on a retrospective basis.

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.7 Valuation Principles Applied / Significant Accounting Policies (cont’d)

2.7.10 Subsequent Events

Subsequent events include all events that take place between the balance sheet date and the date of authorization for the release of the balance sheet, although the events occurred after the announcements related to the net profit/loss or even after the public disclosure of other selective financial information.

In the case that events occur requiring an adjustment, the Group adjusts the amounts recognized in its financial statements to reflect the adjustments after the balance sheet date.

2.7.11 Provisions, Contingent Liabilities and Contingent Assets

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

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

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

2.7.12 Related Parties

A related party is a person or entity that is related to reporting entity, the entity that is preparing its financial statements.

a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity,
- (ii) has significant influence over the reporting entity,
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.7.12 Related Parties (cont'd)

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity..
(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
(vi) The entity is controlled or jointly controlled by a person identified in (a).
(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

2.7.13 Government Grants and Incentives

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants, intended to meet the costs of these incentives are reflected as an expense in profit or loss in a systematic manner throughout the periods. The government grants as a financing tool, rather than being accounted as a net off item profit or loss, should be associated with the statement of financial position (balance sheet) as unearned income, should be reflected in a systematic manner in profit or loss during the economic life of the related assets.

Government incentives given in order to meet expenses or losses previously realized and to provide emergency financial support without any cost in the future are recognized in profit or loss when it becomes liveable.

Law numbered 5746 Research & Development then within the scope of Law numbered 5746 supporting for Research & Development, the Group has R&D certification that has given by the Ministry of Industry & Technology within the scope of this certification, the Group has incentives and exemptions.

The Group benefits from research and development ("R&D") grants within the scope of the Communiqué No: 98/10 of The Scientific and Technological Research Council of Turkey ("TÜBİTAK") and Money Credit and Coordination Board related to R&D grants for its research and development projects given that such projects satisfy specific criteria with respect to the evaluation of TÜBİTAK Technology and Innovation Grant Programs Directorate ("TEYDEB").

As a result of the Group's application of incentive certificate to the General Directorate of Ministry of Economy Incentive Implementation and Foreign Capital, the application of incentives for the Investment of Polymer Production Plants has been applied to the Investments imposed by the decision of the Council of Project-Based State Assistance was taken under the scope of the Council of Ministers dated 30 April 2018, and published in the Official Newspaper of the Republic of 23 June 2018 (Note 26).

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.7.13 Government Grants and Incentives (cont'd)

The government grants are recognized when there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received. The portion of government grants associated to previously capitalize intangible assets is deducted from the cost of the intangible asset, whereas the other government grants are recognized as income in the period which they are incurred.

2.7.14 Investment Properties

Land and buildings that are held to earn rentals or for capital appreciation or both rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business are classified as investment property and carried at cost less accumulated depreciation (except land) under the cost method. The cost of a self-constructed investment property is determined as its cost at the date when the construction or development is complete. On that date the subject asset qualifies as an investment property and thus transferred to investment properties class. The useful life estimation for the buildings within investment properties is between 18-40 years, for the land improvements is between 15-25 years, for plant, machinery and equipment is between 15-25 years, for flooring and fixtures is between 5-10 years and for vehicle tools and equipment is between 5 years.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from disposal. Any gain or loss arising on derecognition of the property is included in profit or loss in the period in which the property is derecognized.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property that is measured at fair value to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property that is measured at fair value, the Group accounts for such property in accordance with the policy stated under "Property, Plant and Equipment" up to the date of change in use.

2.7.15 Income Taxes

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Income tax expense represents the sum of the tax currently payable and deferred tax.

<u>Current tax</u>

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and it excludes items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.7.15 Income Taxes (cont'd)

Deferred tax

Deferred tax liability or asset is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which are used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

Current and deferred tax for the period

Tax is included in the statement of profit or loss, unless it is related to a transaction recognized directly in equity. Otherwise, the tax is recognized in equity together with the related transaction.

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 2 - BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 Valuation Principles Applied / Significant Accounting Policies (cont'd)

2.7.16 Employee Benefits

Termination and retirement benefits:

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per TMS 19 (Revised) *Employee Benefits* ("TMS 19").

The retirement benefit obligation recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation. The actuarial gains and losses are recognized in other comprehensive income.

2.7.17 Cash Flow Statement

In the statement of cash flows, cash flows are classified according to operating, investment and financing activities.

2.7.18 Capital and Dividends

Ordinary shares are classified as equity. Dividends on ordinary shares are recognized in equity in the period in which the dividend is decided.

2.7.19 Segment Reporting

Considering the nature of products and production processes, the type of products and services, and the methods they use to distribute their products and services, the departments are combined into a single operating segment with similar economic characteristics.

NOTE 3 - CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash on hand	4	27
Cash at banks	101,344	28,245
-Demand Deposits	101,344	25,231
-Time Deposits	-	3,014
	101,348	**28,272**

As of 31 December 2019, the Group does not have any time deposits. The details of time deposits of financial statements at 31 December 2018 is as follows:

Currency	Interest Rate (%)	Maturity	31 December 2018
Euro (*)	2.90	4 January 2019	3,014
			3,014

(*) The relevant amount is TL equivalent of Euro 500 thousand.

NOTE 4 - FINANCIAL INSTRUMENTS

Short-Term Financial Investments	31 December 2019	31 December 2018
Blocked deposits with maturity longer than 3 months (*)	27,848	28,139
Total	**27,848**	**28,139**

(*) As of 31 December 2019, the Group has blocked bank deposit amounting because of having a block amoun of TL 27,848 longer than 3 months which derived from Türkiye İhracat Kredi Bankası ("Türk Eximbank") loans (31 December 2018: TL 28,139).

Short-Term Financial Borrowings

	31 December 2019	31 December 2018
Short-term bank loans	2,195,508	639,556
Short-term portion of long-term financial borrowings	391,108	215,544
Finance lease liabilities	3,232	-
	2,589,848	**855,100**

Long-Term Financial Borrowings

	31 December 2019	31 December 2018
Long-term bank loans	1,724,287	1,186,329
Finance lease liabilities	15,508	-
	1,739,795	**1,186,329**

As of 31 December 2019 and 2018, loans included in bank loans and interest accruals related to these loans are as follows:

Principal	**31 December 2019**			**31 December 2018**		
Original Curreny	**Weighted Average Effective Interest Rate (%)**	**Original Amount (*)**	**TL**	**Weighted Average Effective Interest Rate (%)**	**Original Amount (*)**	**TL**
TL	20.36	-	580,705	36.94	-	128,023
US Dollar	-	-	-	10.00	2,000	10,522
Euro	2.43	555,627	3,695,251	3.92	310,571	1,872,121
			4,275,956			**2,010,666**
Accrued Interest						
TL		-	31,750		-	3,310
US Dollar		-	-		44	229
Euro		3,298	21,937		4,415	27,224
			4,329,643			**2,041,429**

(*) USD and Euro are expressed in thousands.

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 4 - FINANCIAL INSTRUMENTS (cont'd)

The redemption schedule of the Group's financial borrowings is as follows:

	31 December 2019	31 December 2018
Within 1 year	2,589,848	855,100
Within 1 - 2 year	404,314	241,270
Within 2 - 3 year	387,636	234,630
Within 3 - 4 year	261,959	222,386
Within 4 - 5 year	185,185	178,054
Later than 5 years	500,701	309,989
	4,329,643	**2,041,429**

Bank loan covenants:

Some of the Group's loans are subject to the covenants. In accordance with these covenants, some performance criterion must be fulfilled by the Group. The Group has failed to meet its debt/equity ratio obligation in the contract and EUR 172 million of long term loans are reclassified as short -term.

Reconciliation of the liabilities arising from financial activities

Cash and noncash changes regarding the liabilities arising from financing activities of the Group are given below. Liabilities arising from financial activities are the cash flows that is recognized or will be recognized under the cash flows from financing activities at the consolidated statement of cashflow of the Group.

	31 December 2019	31 December 2018
Opening balance	2,041,429	920,803
Interest expense	129,710	22,125
Interest paid	(122,651)	(54,283)
Exchange difference	140,347	328,247
Capitalized financial expense (Note 11)	209,721	112,780
New loans	4,481,199	1,429,901
Loans paid	(2,550,112)	(718,144)
Closing Balance	**4,329,643**	**2,041,429**

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 5 - TRADE RECEIVABLES AND PAYABLES

Trade Receivables

	31 December 2019	31 December 2018
Trade receivables (*)	273,582	255,752
Checks received (**)	124,663	133,113
Doubtful receivable provision	(681)	(171)
	397,564	**388,694**
Receivables from related parties (Note 28)	99,456	71,906
	497,020	**460,600**

(*) As of 31 December 2019 trade receivables are discounted by using monthly 1% for TL, 0.43% for USD, 0.27% for EUR. (As of 31 December 2018: 2.92% for TL, 0.75% for USD, 0.54% for EUR).

(**) Cheques received constitute the cheques obtained from customers and kept in portfolio as a result of trade activities and consist of TL 70,125 with maturities of less than three months (31 December 2018: TL 80,782).

Overdue Period	31 December 2019	31 December 2018
Up to 1 month	39,529	18,752
Up to 1-3 months	2,850	1,270
Over 3 months	267	254
	42,646	**20,276**

As of 31 December 2019 and 2018, due to existence of receivable insurance, bank guarantee, mortgage and other guarantees, the Group has not allocated any provision relation to trade receivables that were past due but not impaired.

The analysis of overdue receivables and provision for doubtful receivables as follows:

Overdue Period	31 December 2019	31 December 2018
Over 6 months	681	171
	681	**171**

As of 31 December 2019, provision for doubtful receivables has been provided for trade receivables is amounting to TL 681 (2018: TL 171). Allowances for doubtful receivables are recognized against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty. The movements of the provision for doubtful receivables during the period are as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Balance at 1 January	**(171)**	**(3,100)**
Provision for the period (Note 19)	(510)	-
Provision written-off during the period (*)	-	2,929
Balance 31 December	**(681)**	**(171)**

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 5 - TRADE RECEIVABLES AND PAYABLES (cont'd)

Trade Payables

	31 December 2019	31 December 2018
Trade payables	677,847	316,577
	677,847	**316,577**

As of 31 December 2019 trade payables are discounted by using monthly 1% for TL, 0.43% for USD, 0.27% for EUR (31 December 2018: 2.92% for TL, 0.75% for USD, 0.54% for EUR).

As of 31 December 2019 average turnover for trade receivables and trade payables are 100 days and 68 days, respectively (31 December 2018: 58 days and 59 days respectively).

Explanation on credit risk of receivables are explained in Note 30.

NOTE 6 – PAYABLES RELATED TO EMPLOYEE BENEFITS

Payables Related to Employee Benefits

	31 December 2019	31 December 2018
Social security premium	6,404	4,903
Payables to personnel	3,785	2,303
	10,189	**7,206**

NOTE 7 – OTHER RECEIVABLES, PAYABLES AND DEFERRED INCOME

Other Current Receivables

	31 December 2019	31 December 2018
Job and service advances	4,170	344
Prepaid taxes and funds	578	567
Deposits and guarantees given	97	62
Receivables from insurance indemnity	-	429
Other receivables	100	600
	4,945	**2,002**
Other receivables from related parties (Note 28)	-	329,976
	4,945	**331,978**

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 7 – OTHER RECEIVABLES, PAYABLES AND DEFERRED INCOME (cont'd)

Other Non-Current Receivables

	31 December 2019	31 December 2018
Deposits and guarantees given	114	114
	114	**114**

Other Payables

	31 December 2019	31 December 2018
Taxes, duties and charges	12,216	3,644
Other	-	2
	12,216	**3,646**

Deferred Income

	31 December 2019	31 December 2018
Order advances received (*)	89,423	1,624
	89,423	**1,624**

(*) The Group increased its sales with the fiber plant in 2019. In parallel with this situation, there has been an increase in the order advances received.

NOTE 8 – INVENTORIES

	31 December 2019	31 December 2018
Raw materials and supplies	363,242	259,290
Finished goods	241,971	208,990
Intermediate goods	109,296	72,907
Spare parts	16,140	7,459
Working in progress	5,945	5,237
Others	14,941	6,764
	751,535	**560,647**

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 9 - PREPAID EXPENSES

Prepaid Expenses (Short-term)

	31 December 2019	31 December 2018
Prepaid insurance costs	8,308	4,736
Other	3,829	1,440
	12,137	**6,176**

	31 December 2019	31 December 2018
Advances given for PPE purchases (*)	157,920	194,317
Prepaid expenses	718	1,965
	158,638	**196,282**

(*) Given advance is related to advance paid for chips, poy-texturized, pet (MTR) investments of the Group for production facilities.

NOTE 10 - INVESTMENT PROPERTIES

The movement schedules of investment properties and related depreciation for the years ended 31 December 2019 and 2018 are as follows:

	1 January 2019	Additions	Disposals	31 December 2019
Cost				
Land	19	-	-	19
Buildings	10,319	-	-	10,319
Land and land improvements	1,045	-	-	1,045
Machine, plant and equipment	211	-	-	211
	11,594	**-**	**-**	**11,594**
Accumulated Depreciation				
Buildings	7,462	63	-	7,525
Land and land improvements	827	6	-	833
Machine, plant and equipment	107	82	-	189
	8,396	**151**	**-**	**8,547**
Net book value	**3,198**		**-**	**3,047**

As of 31 December 2019 the Group has investment properties with the net book value of TL 214 (31 December 2018: TL 344) leased to the third parties through lease agreements. The Group has generated rent income of TL 291 (31 December 2018: TL 276) throughout the period resulting from these lease agreements (Note 22).

The net carrying value of the investment properties of the Group is considered to approximate the true fair value.

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 10 - INVESTMENT PROPERTIES (cont'd)

	1 January 2018	Additions	Disposals	31 December 2018
Cost				
Land	19	-	-	19
Buildings	10,319	-	-	10,319
Land and land improvements	1,045	-	-	1,045
Machine, plant and equipment	7,587	-	(7,376)	211
Vehicles	224	-	(224)	-
Furniture and fixtures	277	-	(277)	-
	19,471	**-**	**(7,877)**	**11,594**
Accumulated Depreciation				
Buildings	7,363	99	-	7,462
Land and land improvements	819	8	-	827
Machine, plant and equipment	4,885	121	(4,899)	107
Vehicles	224	-	(224)	-
Furniture and fixtures	263	-	(263)	-
	13,554	**228**	(5,386)	**8,396**
Net book value	**5,917**	**(228)**	**(2,491)**	**3,198**

(*) The income statement related to the total depreciation expense in the periods ended at 31 December 2019 and 2018 is given in Note 11.

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

The movement schedules of property, plant and equipment and related depreciation for 31 December 2019 and 2018 are as follows:

	1 January 2019	Additions	Transfers	Disposals	31 December 2019
Cost					
Land	714,261	-	-	-	714,261
Land and land improvements	7,657	-	80	(282)	7,455
Buildings	52,402	930	312,791	(446)	365,677
Machine, plant and equipment	451,572	4,884	1,148,178	(11,868)	1,592,766
Vehicles	3,025	1,214	1,527	(1)	5,765
Furniture and fixtures	8,085	1,863	2,383	(206)	12,125
Leasehold improvements (*)	1,312,317	2,492,758	(1,464,959)	-	2,340,116
	2,549,319	**2,501,649**	**-**	**(12,803)**	**5,038,165**
Accumulated Depreciation					
Land and land improvements	3,218	102	-	(256)	3,064
Buildings	45,987	4,079	-	(407)	49,659
Machine, plant and equipment	322,846	34,138	-	(10,534)	346,450
Vehicles	2,617	575	-	-	3,192
Furniture and fixtures	5,261	1,004	-	(141)	6,124
	379,929	**39,898**	**-**	**(11,338)**	**408,489**
Net book value	**2,169,390**				**4,629,676**

(*) During the period ended 31 December 2019, borrowing cost capitalized in constructions in progress is TL 209,721 (Note 4) (Foreign exchange difference: TL 164,879, interest: TL 44,842) 31 December 2018: TL 112,780). As of 31 December 2019, TL 18,740 of additions to constructions in progress consists of machinery purchased through leasing (31 December 2018: None).

Trade receivables related to purchases for which no payment has been made yet amount to TL 124,093 (31 December 2018: 32,358). Prepaid advance set off for purchases in 2019 is amounting to TL 36,397 (31 December 2018: TL 47,629) (Note 9).

The Group has mortgage amounting to TL 571,440 on its property, plant and equipment as of 31 December 2019 (31 December 2018: TL 571,440).

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (cont'd)

	1 January 2018	Additions	Disposals	31 December 2018
Cost				
Land	611,229	103,032	-	714,261
Land and land improvements	7,425	232	-	7,657
Buildings	59,420	216	(7,234)	52,402
Machine, plant and equipment	429,862	31,225	(9,515)	451,572
Vehicles	2,384	751	(110)	3,025
Furniture and fixtures	6,518	1,626	(59)	8,085
Leasehold improvements	368,319	943,998	-	1,312,317
	1,485,157	**1,081,080**	**(16,918)**	**2,549,319**
Accumulated Depreciation				
Land and land improvements	6,336	90	(3,208)	3,218
Buildings	45,157	2,385	(1,555)	45,987
Machine, plant and equipment	320,580	8,112	(5,846)	322,846
Vehicles	2,336	281	-	2,617
Furniture and fixtures	4,531	730	-	5,261
	378,940	**11,598**	**(10,609)**	**379,929**
Net book value	**1,106,217**			**2,169,390**

Fair value measurement of the Group's freehold land and buildings

The Group's freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Group's freehold land and buildings as at 31 December 2017 were performed by and independent valuation firm, which is authorized by Capital Markets Board and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value of the freehold land was determined based on the market comparable approach that reflects recent transaction prices for similar properties.

Details of the Group's freehold land and information about the fair value hierarchy as at 31 December 2019 are as follows:

		Fair value level as of the reporting date		
	31 December 2019	**Level 1**	**Level 2**	**Level 3**
Land	714,261	-	714,261	-
	714,261	**-**	**714,261**	**-**

There were no transfers between Level 1 and Level 2 during the year.

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (cont'd)

Income statement charge accounts for depreciation and amortization of total property plant and equipment, intangible assets, investment property during the periods ended 31 December 2019 and 31 December 2018 are as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Production cost (Note: 18)	37,466	9,858
Marketing, sales and distribution expenses (Note: 19)	1,478	1,006
General administrative expenses (Note: 19)	1,276	1,279
Research expenses (Note: 19)	516	639
	40,736	**12,782**

NOTE 12 - INTANGIBLE ASSETS

The movement schedules of intangible assets and related accumulated amortization for the year ended 31 December 2019 and 2018 are as follows:

	1 January 2019	Additions	31 December 2019
Cost			
Rights	8,256	743	8,999
Development costs	7,641	216	7,857
	15,897	**959**	**16,856**
Accumulated amortization			
Rights	6,810	466	7,276
Development costs	7,989	221	8,210
	14,799	**687**	**15,486**
Net book value	**1,098**		**1,370**

	1 January 2018	Additions	31 December 2018
Cost			
Rights	7,032	1,224	8,256
Development costs	7,641	-	7,641
	14,673	**1,224**	**15,897**
Accumulated amortization			
Rights	6,232	578	6,810
Development costs	7,611	378	7,989
	13,843	**956**	**14,799**
Net book value	**830**		**1,098**

The amortization expenses for the reporting periods ended 31 December 2019 and 2018 are presented in Note 11.

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 13 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Provision for Restructuring and Other Redemption Demands

	31 December 2019	31 December 2018
Provision for restructuring other redemption (*)	585	877
Other	31	-
	616	**877**

(*) Provision for restructuring and other redemption are related to legal cases which were filed by ex-workers against the Group. Such lawsuits are pending as of balance sheet date.

	1 January - 31 December 2019	1 Ocak - 31 December 2018
Balance at 1 January	**877**	**2,453**
Provision for the period (Note 19)	152	197
Provision written-off within the period	(444)	(1,773)
Balance at 31 December	**585**	**877**

NOTE 14 - COMMITMENTS

Commitments, which are not included in the liabilities / asset at 31 December 2019 and 2018 are as follows:

Commitments based on export incentive certificates

	31 December 2019	31 December 2018
Total amount of export commitment of certificates	6,462,908	4,599,496
Total amount of export commitment certificates which are presently fulfilled but the closing transactions are not concluded yet	4,718,982	4,152,613
Total amount of registered open export incentives	2,274,892	840,603
Other open export incentives	1,645,841	320,487

	31 December 2019	31 December 2018
Open Letter of Credits	364,332	593,745

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 14 – COMMITMENTS (cont'd)

Collateral, pledges and mortgages 'CPM' given by the Group

	31 December 2019			31 December 2018		
	TL Equivalent	TL	Euro	TL Equivalent	TL	Euro
A.Total amounts of CPM given on behalf of its own legal entity (*)						
Total Amount of CPMs (*)	1,342,726	589,047	113,325	1,202,289	608,422	98,518
B.Total amounts of CPM given on behalf of subsidiaries that are included in full consolidation	13,301	-	2,000	12,484	12,484	-
C.Total amounts of CPM given in order to guarantee third parties debts for routine trade operations	-	-	-	-	-	-
D.Total amount of other CPMs given						
- Total amount of CPMs given on behalf of the majority shareholder	-	-	-	-	-	-
- Total amount of CPMs given on behalf of other group companies which are not in scope of B and C	-	-	-	-	-	-
- Total amount of CPMs given on behalf of third parties which are not in scope of C	-	-	-	-	-	-
Total CPM Amount	**1,356,027**	**589,047**	**115,325**	**1,214,773**	**620,906**	**98,518**

(*) US Dollar and Euro amounts are expressed as USD 1,000 and EUR 1,000.

As of 31 December 2019 the percentage of the other CPM`s given by the Group to the total equity is 0% (31 December 2018: 0%).

Mortgages and guarantees taken at 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Letter of guarantees received	105,735	48,446
Cheques/notes of guarantees received	2,942	2,758
	108,677	**51,204**

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 16 - PROVISION FOR EMPLOYEE BENEFITS

Short Term Employee Benefits

	31 December 2019	31 December 2018
Provision for employment termination benefits	43,084	37,252
Unused vacation provision	5,377	3,668
	48,461	**40,920**

Unused Vacation Provision

The Group grants paid annual leave to its employees on condition that they have worked for at least one year from the day they start to work, including the trial period.

Movements of unused vacation allowances at 31 December 2019 and 2018 are as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Balance at 1 January	**3,668**	**2,922**
Provision for the period	2,897	873
Provision released	(1,188)	(127)
Balance at 31 December	**5,377**	**3,668**

Provision for Employment Termination Benefits

There are no agreements for pension commitments other than the legal requirement as explained below.

Under Turkish Labor Law, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause excluding 25/2 article of labor law, who voluntarily leaves the work in accordance with Article 24 of the Labor Law, who fulfilled the conditions of Social Security Institution related to age limit in order to be granted the right to have old age pension payment, who is called up for military service or dies, and women who leaves the work for marriage within one year. As of 8 September 1999 related labor law was changed and retirement requirements made gradual.

Compensation with the personnel outside the scope of the collective agreement and the severance compensation ceiling for the weaving labour union staff, as much as the amount of a monthly dress for each service year, for the chemical labour union staff, the seniority The amount of the fee is forty seven days for each service year, provided that it is not exceeded. For a period of more than a year, the same rate will be paid through the same ratio.

The liability is not funded, as there is no funding requirement.

The reserve has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees.

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 15 - PROVISION FOR EMPLOYEE BENEFITS (cont'd)

Provision for Employment Termination Benefits (cont'd)

TFRS requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, following actuarial assumptions were used in the calculation of the total liability.

	31 December 2019	31 December 2018
Discount rate (%)	4.72	4.72
Retention rate to estimate the probability of retirement (%)	98	98

Discount rate is derived upon the difference of long-term interest's rates in TL and the expected inflation rate.

The principal assumption is that maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. The maximum amount of TL 6.73 (1 January 2019: TL 6.02), which is expected to be effective from 1 January 2020, has been taken into consideration in calculating the provision for employment termination benefits of the Group.

Movements of provision for employment termination benefits:

	1 January - 31 December 2019	1 January - 31 December 2018
Balance at 1 January	**37.252**	**31.826**
Provision for the period	12.127	10.481
Payment within the period	(6.295)	(5.055)
Balance at 31 December	**43.084**	**37.252**

NOTE 16 - OTHER ASSETS AND LIABILITIES

Other current assets

	31 December 2019	31 December 2018
Deferred VAT (*)	187,523	36,166
VAT return receivables from export and domestic market sales (**)	28,383	30,610
Deferred special consumption tax	-	774
	215,906	**67,550**

(*) A portion of TL 114,000 of the relevant amount will be refunded after the activation of the poy and mtr facilities in 2020. At the same time, the amount of 12,000 TL will be refunded in 2020 without the need for the activation of the constructions made within the scope of the incentive. The remaining amount is related to inventory purchases and will be refunded in 2020.

(**) The Group applied for a VAT refund amounting to TL 28,383 as of 31 December 2019 and the amount is collected as of the report issuance date (31 December 2018: TL 12,642).

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 17 - EQUITY

Sasa Polyester Sanayi A.Ş. is fully paid and issued is 83,000,000,000 shares with the nominal value of KR 1 each (31 December 2018: 60,500,000,000 shares). The shareholders and shareholding structure of the Group at 31 December 2019 and 2018 are as follows:

	31 December 2019		31 December 2018	
	Share Amount	**Share**	**Share Amount**	**Share**
Erdemoğlu Holding A.Ş.	521,272	62.80	513,063	84.80
Merinos Halı San. ve Tic. A.Ş. (**)	120,350	14.50	-	-
Dinarsu İmalat ve Ticaret T.A.Ş. (**)	62,250	7.50	-	-
Other	126,128	15.20	91,937	15.20
Share Capital (*)	**830,000**	**100**	**605,000**	**100**
Adjustments to share capital (***)	13		13	
Total Capital	**830,013**		**605,013**	

(*) The total capital of the Group is increased to TL 830,000 (full TL thousand) through bonus issues amounting to TL 225.000 (full TL) on 3 May 2019.

(**) Erdemoğlu Holding A.Ş. has 84.40% share of TL 830,000 (full TL thousand) nominal capital of Sasa Polyester Sanayi A.Ş. and 51% of shares is non –listed within 84.40%. Erdemoğlu Holding A.Ş. sold 120,350 lots of Sasa Polyester San. A.Ş. shares, which is equal to 14.50%, within 51% non- listed shares to its subsidiary, Merinos Halı San. ve Tic. A.Ş. with TL 7.20 per lot on 30 September 2019. Also, Erdemoğlu Holding San. A.Ş. sold 62,250 lots of Sasa Polyester San. A.Ş. which is equal to 7.50%, within 51%, non-listed shares to its subsidiary Dinarsu İmalat ve Ticaret T.A.Ş with TL 7.20 per lot on 30 September 2019.

(***) Adjustment to share capital represents the adjustment amount of net amount of inflation adjusted share capital amount of the Group and accumulated loss.

Equity items of Group as at 31 December 2019 and 2018 prepared in accordance with the Communiqué No: XI-29 are as follows:

	31 December 2019	31 December 2018
Share Capital (*)	830,000	605,000
Adjustments to Share Capital	13	13
Repurchased Shares	(2,594)	(1,594)
Restricted Reserves Appropriated from Profit	191,559	28,306
Accumulated Loss	(6,540)	(2,384)
Remeasurement Losses on Defined Benefit Plans	(4,109)	(4,109)
Gain on Revaluation of Property, Plant and Equipment	512,592	512,592
Net Profit for the Year	1,064,180	597,406
Total Share Capital	**2,585,101**	**1,735,230**

NOTE 17 – SHAREHOLDERS' EQUITY (cont'd)

(*) Between 24 November 2017 and 29 November 2017, the Group has repurchased a total of 159,388,400 shares within a price range of TL 6.40 - TL 6.69 (TL-Exact) with the total transaction amounting exactly to 10,532,055, on 23 May 2019, a total of 1,000,000,000 shares within a price range of TL 5.07 – TL 5.29 (TL-Full) with the total transaction amounting to TL 5,155,926 (TL-Full). The total share of the Group has reached a nominal value of TL 2,594,000 and a rate of 0.5069%.

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 Group'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.

In accordance with the CMB's requirements which were effective until 1 January 2008, the amount generated from first-time application of inflation adjustments on financial statements, and followed under the "accumulated loss" item was taken into consideration as a reduction in the calculation of profit distribution based on the inflation adjusted financial statements within the scope of the CMB's regulation issued on profit distribution. The related amount that was followed under the "accumulated loss" item could also be offset against the profit for the period (if any) and undistributed retained earnings and the remaining loss amount could be offset against capital reserves arising from the restatement of extraordinary reserves, legal reserves and equity items, respectively.

In addition, in accordance with the CMB's requirements which were effective until 1 January 2008, at the first-time application of inflation adjustments on financial statements, equity items, namely "Capital issue premiums", "Legal reserves", "Statutory reserves", "Special reserves" and "Extraordinary reserves" were carried at nominal value in the balance sheet and restatement differences of such items were presented in equity under the "Shareholders' equity inflation restatement differences" line item in aggregate. "Shareholders' equity inflation restatement differences" related to all equity items could only be subject to the capital increase by bonus issue or loss deduction, while the carrying value of extraordinary reserves could be subject to the capital increase by bonus issue; cash profit distribution or loss offsetting.

In accordance with the Communiqué No: XI-29 and related announcements of CMB, effective from 1 January 2008, "Share capital", "Restricted Reserves" and "Share Premiums" shall be carried at their statutory amounts. The valuation differences as part of TMS/TFRS shall be disclosed as follows:

- If the difference is arising due to the inflation adjustment of "Paid-in Capital" and not yet been transferred to capital should be classified under the "Inflation Adjustment to Share Capital";

- If the difference is due to the inflation adjustment of "Restricted Reserves" and "Share Premium" and the amount has not been utilized in dividend distribution or capital increase yet, it shall be classified under "Retained Earnings". Other equity items are presented at their amounts valued within the framework of International Financial Reporting Standards.

There is no other usage other than the addition of capital adjustment differences to the capital.

NOTE 17 - SHAREHOLDERS' EQUITY (cont'd)

Dividend Distribution

Listed companies shall distribute their profit in accordance with the Capital Market Board's Communiqué on Dividends II-19.1 which is effective from 1 February 2014.

Companies shall distribute their profits as part of the profit distribution policies to be determined by their general assemblies and in accordance with the related regulation provisions. A minimum distribution rate has been determined as 50 % of profit available for distribution according to dated 2013 Ordinary General Assembly decision which occurred in 24 March 2014.

Dividends shall be distributed to all existing shares equally, as soon as possible, regardless of their issuance and acquisition dates. In addition to the aforementioned, dividends shall be distributed to the shareholders on the date determined by the General Assembly following the approval of the General Assembly within the specified legal periods. Distiribution of advance dividends to the shareholders is also possible by the decision of the Board of Directors, if the General Assembly authorizes, in accordance with the Group's Articles of Association.

Resources that may be subject to profit distribution:

There is no profit for the year in the legal records of the Company that may be subject to profit distribution as of the balance-sheet date (31 December 2018: TL 462,888).

In accordance with the Turkish Commercial Code (TCC), no decision may be made to set aside other reserves, to transfer profits to the subsequent year or to distribute dividends to the holders of a usufruct right certificate, to the members of the board of directors or to the employees unless the required reserves and the dividend for shareholders as determined in the main agreement or in the dividend distribution policy of the Group are set aside; and no dividend can be distributed to these persons unless the determined dividend for shareholders is paid in cash.

During the General Assembly on 28 March 2019, Sasa Polyester Sanayi A.Ş. approved the capital increase by bonus issue in gross TL 225,000 of net profit of 2018, and cash profit distribution in TL 209,153. The application made to the Capital Markets Board on 12 April 2019 for the approval from the Board within the scope of bonus share capital increase, was approved on 25 April 2019 and registered by Adana Trade Registry Office on 2 May 2019.

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 18 - REVENUE AND COST OF SALES

Sales Income

	1 January- 31 December 2019	1 January- 31 December 2018
Polyester Fiber	1,392,102	1,035,605
Domestic	*1,231,879*	*864,217*
Foreign	*160,223*	*171,388*
Polyester Cips	1,085,032	932,885
Domestic	*501,608*	*295,349*
Foreign	*583,424*	*637,536*
Commercial Commodities	53,083	81,923
Domestic	*53,083*	*81,923*
Polyester Yarn	113,836	67,710
Domestic	*113,836*	*53,750*
Foreign	-	*13,960*
Poy	99,497	5,760
Domestic	*99,497*	*5,760*
Other	20,195	55,071
Domestic	*20,195*	*55,071*
Revenue	**2,763,745**	**2,178,954**

Cost of Sales

	1 January - 31 December 2019	1 January - 31 December 2018
Raw materials used	1,896,737	1,505,452
Energy expenses	188,898	150,203
Labour expenses	97,211	87,631
Spare parts and maintenance expenses	34,794	28,073
Depreciation and amortization expenses (Note 11)	31,416	7,833
Insurance expenses	6,279	4,621
Usage of semi-finished goods	(708)	(1,635)
Other expenses	28,883	15,704
Production Cost for the Period	**2,283,510**	**1,797,882**
Usage of WIP and finished goods	69,370	(191,012)
Cost of trade goods sold	46,821	75,241
Cost of waste goods sold	23,075	5,807
Other idle period expense	19,488	14,482
Depreciation and amortization of idle period (Note 11)	6,050	2,025
Cost of Goods Sold During the Period	**2,448,314**	**1,704,425**

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 19 - MARKETING, GENERAL ADMINISTRATIVE AND RESEARCH AND DEVELOPMENT EXPENSES

General Administrative Expenses

	1 January - 31 December 2019	1 January - 31 December 2018
Personnel expenses	18,019	14,103
Consultancy expenses	3,829	1,303
Insurance expenses	2,478	758
Depreciation and amortization expenses (Note 11)	1,276	1,279
Severance and notice pay	1,220	1,632
Supplies, repair and maintanence expenses	1,114	1,033
Energy expenses	532	472
Doubtful trade receivable provision expenses (Note 5)	510	-
Assisted services expenses	429	259
Restructing provision expense (Note 13)	152	197
Other expenses	9,170	3,515
	38,729	**24,551**

Marketing Expenses

	1 January - 31 December 2019	1 January - 31 December 2018
Export and freight expenses	58,914	56,261
Taxes and duties expenses	9,129	7,715
Personnel expenses	8,483	6,130
Insurance expenses	1,519	1,078
Depreciation and amortization expenses (Note 11)	1,478	1,006
Energy expenses	187	132
Rent expenses	181	27
Other expenses	5,335	3,000
	85,226	**75,349**

Research and Development Expenses

	1 January - 31 December 2019	1 January - 31 December 2018
Labour and personnel expenses	2,045	326
Depreciation and amortization expenses (Note 11)	516	639
Insurance expenses	361	-
Repair and maintenance expenses	69	35
Other expenses	906	484
	3,897	**1,484**

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 20 - EXPENSES BY NATURE

	1 January- 31 December 2019	1 January- 31 December 2018
Raw material and supplies expenses	1,896,737	1,505,453
Energy expenses	189,617	150,807
Labour expenses	125,758	108,190
Export and freight costs	58,914	56,261
Cost of products sold	46,821	75,241
Depreciation and amortization expenses(Note 11)	40,736	12,782
Spare parts and maintainance expenses	34,794	28,073
Cost of wasted goods sold	23,075	5,807
Other idle period expenses	19,488	14,482
Insurance expenses	10,415	6,457
Tax and duties expenses	9,129	7,715
Consultancy expenses	3,829	1,303
Severance and notice pay	1,220	1,632
Supplies, repair and maintanance expenses	1,183	1,068
Doubtful trade receivable provision expenses (Note 5)	510	-
Assisted services expenses	429	259
Rent expenses	181	27
Restructing provision expenses (Note 13)	152	197
Usage of semi-finished goods	(709)	(1,634)
Usage of products and semi finished products in period	69,370	(191,012)
Other expenses	44,517	22,701
	2,576,166	**1,805,809**

NOTE 21 - OTHER INCOME / EXPENSE FROM OPERATING ACTIVITIES

Other Operating Income

	1 January- 31 December 2019	1 January- 31 December 2018
Foreign exchange income from trade receivables/payables	169,589	511,493
Miscellaneous sales income	10,983	6,940
Raw material sales revenue	6,025	58,889
Provision released	603	127
Interest income from receivables	37	5,924
Other income	34,727	24,938
	221,964	**608,311**

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 21 - OTHER INCOME / EXPENSE FROM OPERATING ACTIVITIES (cont'd)

Other Operating Expenses

	1 January- 31 December 2019	1 January- 31 December 2018
Foreign exchange expenses from trade receivables/payables	140,759	336,451
Taxes, duties and penalties	7,563	4,168
Miscellaneous sales cost	5,968	2,166
Raw material sales cost	4,439	56,390
Other expenses	4,738	31,772
	163,467	**430,947**

NOTE 22 - INVESTMENT INCOME / EXPENSES

	1 January- 31 December 2019	1 January- 31 December 2018
Gain on sales of property, plant and equipment (*)	4,383	3,395
Rent income	291	276
Loss on sales of property, plant and equipment (*)	(1,387)	(4,642)
	3,287	**(971)**

(*) The amount is comprised of the sale of various machinery and equipment of the Group in idle condition.

NOTE 23 - FINANCE INCOME

	1 January- 31 December 2019	1 January- 31 December 2018
Foreign exchange income	57,696	38,799
Interest income	19,146	20,562
	76,842	**59,361**

NOTE 24 - FINANCE EXPENSES

	1 January- 31 December 2019	1 January- 31 December 2018
Foreign exchange expenses	157,741	324,825
Interest expenses	129,710	22,125
Commission expenses	26,152	10,962
	313,603	**357,912**

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 25 – ANALYSIS OF OTHER COMPREHENSIVE INCOME

	31 December 2019	**31 December 2018**
Revaluation fund of property, plant and equipment	512,592	512,592
Gain on remeasurement of defined benefit plans	(4,109)	(4,109)
	508,483	**508,483**

Revaluation fund of property, plant and equipment

	1 January - 31 December 2019	**1 January - 31 December 2018**
Balance at the beginning of the year	512,592	512,592
Increase arising from revaluation of property, plant and equipment (Note 11)	-	-
Deferred tax liability arising on revaluation	-	-
Balance at the end of the period	**512,592**	**512,592**

Gain on remeasurement of defined benefit plans

	1 January - 31 December 2019	**1 January - 31 December 2018**
Balance at the beginning of the year	(4,109)	(4,109)
Increase during the year	-	-
Deferred tax effect	-	-
Balance at the end of the period	**(4,109)**	**(4,109)**

NOTE 26 - TAX ASSETS AND LIABILITIES

Deferred Taxes

The Group calculates deferred income tax assets and liabilities based upon the effects of the temporary differences of the items of financial position statement between the financial statements prepared under Turkish Accounting Standards and financial statements prepared according to the Turkish Commercial Code and tax laws.

These differences usually result in the recognition of revenue and expenses in different reporting periods for International Financial Reporting Standards and tax purposes.

Tax rate used in the calculation of deferred tax assets and liabilities was %22 over temporary timing differences expected to be reversed in 2020, and %20 over temporary timing differences expected to be reversed in 2021 and the following years (2018: 22%).

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 26 - TAX ASSETS AND LIABILITIES (cont'd)

Deferred Taxes (cont'd)

The composition of cumulative temporary differences and the related deferred tax assets and liabilities in respect of items for which deferred income tax has been provided as of 31 December 2019 and 2018 using the enacted tax rates are as follows:

	Cumulative temporary difference		Deferred tax asset / (liabilities)	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Net difference between the recorded values of tangible and intangible assets and tax values	75,169	159,021	15,034	31,804
Exchange differences adjustment of investment advance given	11,518	48,595	2,534	10,691
Revaluation difference of property, plant and equipment	(569,546)	(569,546)	(56,955)	(56,955)
Investment allowance to be used (*)	1,355,157	300,889	1,355,157	300,889
Provision for severance pay	43,084	39,792	8,617	7,958
Valuation difference of inventories	20,227	570	4,450	125
Adjustment of unrealized sales	6,119	(3,618)	1,346	(796)
Unused leave provision	5,377	3,668	1,183	807
Provisions for litigation	585	877	129	193
Provision for doubtful receivables	681	171	150	38
Export expense provision	2,975	1,825	655	402
Financing income accrual	(7,931)	(2,403)	(1,745)	(529)
Financing expense accrual	7,088	12,110	1,559	2,665
Usable prior years' loss (**)	80,181	-	17,640	-
Adjustments related to valuation of derivative financial instruments	(1,042)	-	(229)	-
Other adjustments	144	-	30	-
Deferred tax assets			1,408,484	355,572
Deferred tax liabilities			(58,929)	(58,280)
Deferred tax assets			**1,349,555**	**297,292**

(*) The related amount is explained in the section of government incentives and grants.

(**) The Group has evaluated the collectibility of tax losses transferred in 2019. The Group management has decided that the Group can generate taxable profit, and this profit can be offset within 5 years. This assessment is based on profitability and cash flow projection prepared according to past experiences and expectations regarding the market.

The expiration date of prior year's unused losses is as follows:

	31 December 2019	**31 December 2018**
Expires in 2024	80,181	-
	80,181	**-**

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 26 - TAX ASSETS AND LIABILITIES (cont'd)

Deferred Taxes (cont'd)

	31 December 2019	**31 December 2018**
Sasa Polyester San. A.Ş.	1,347,554	297,686
Sasa Dış Ticaret A.Ş.	2,001	(394)
	1,349,555	297,292

	1 January - 31 December 2019	**1 January - 31 December 2018**
Balance at 1 January	**297,292**	**(52,354)**
Deferred tax (expense) / income for the period	(2,005)	48,757
Deferred tax income for investment incentive expenditures	1,054,268	300,889
Balance at 31 December	**1,349,555**	**297,292**

Reconciliation of tax provision

	1 January - 31 December 2019	**1 January - 31 December 2018**
Profit before tax from activities	12,602	250,987
Income tax rate: 22%	(2,772)	(55,217)
Tax effects:		
-Non-deductible expenses	(4,472)	(1,955)
-Income subject to investment incentive expenditures	1,054,268	300,889
-Exemption used within the scope of the incentive certificate	-	103,970
-Exemption of participation gains	5,364	1,187
-Other adjustments	(810)	(2,455)
Tax provision income on the income statement	1,051,578	346,419

Corporate Tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent Group and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

NOTE 26 - TAX ASSETS AND LIABILITIES (cont'd)

Corporate Tax (cont'd)

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective tax rate in 2019 is 22% (2018: 22%) for the Group.

The Law numbered 7061 on Amendment of Certain Taxes and Laws and Other Acts was published on the Official Gazette dated December 5, 2017 and numbered 30261. Article 5 entitled "Exceptions" of the Corporate Tax Law has been amended in Article 89 of the Law. In accordance with (a) clause in the first paragraph of the Article, the exemption of 75% applied to gains from the sales of lands and buildings held by the entities for two full years has been reduced to rate of 50%. This regulation has been effective from 5 December 2017.

Corporate tax rate is applied to the taxable profit which is calculated by adding non-taxable expenses and deducting some exemptions taken place in tax laws (exemptions for participation revenues, exemptions for investment incentives) and discounts (R&D discount) from accounting profit of the Group. No additional taxes are paid unless profit is distributed (except 19.8% withholding tax paid over used investment incentives according to the Income Tax Law temporary article).

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

The Group makes advance tax calculations at the rate of 22% on its quarterly financial income and declares on 14th day of the second month after period and pays until the evening of 17 April (including Income Tax Law No. 5615, which was enacted on April 4, 2007 and the law related to amendments on the Laws, and declarations must be given related to March 2007).

The temporary tax paid during the year belongs to that year and is deducted from the corporation tax that will be calculated over corporate tax declaration. If advance tax amount that is paid remains in spite of the deduction, this amount can be returned in cash or offset to any other financial debt.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within the 25th of the fourth month following the close of the financial year to tax office which they relate. However, tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 26 - TAX ASSETS AND LIABILITIES (cont'd)

Corporate Tax (cont'd)

Total tax income in the statement of profit or loss for the year ended 31 December 2019 and 2018 is as follows:

	1 January- 31 December 2019	1 January- 31 December 2018
Current tax expense	(685)	(3,227)
Deferred tax income	1,052,263	349,646
Total tax income	**1,051,578**	**346,419**

	31 December 2019	31 December 2018
Corporate tax payable	685	107,197
Investment incentive deduction	-	(103,970)
Current tax provision	**685**	**3,227**

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

Government Incentives and Aids

As a result of the application for investment incentive certificate of the Sasa Polyester Sanayi A.Ş. to the Ministry of Economy to the General Directorate of Incentive Implementation and Foreign Investment, the application for incentives for Polymer Production Plant Investment has been included in the scope of the Project Provided State Aid to the Investments entered into force upon the decision of the Council of Ministers and published in the Official Gazette dated 23 June 2018. The investment amount that will be subject to investment incentive certificate has reached to TL 2,503,025 after revisions and the incentives that the investment will benefit from are:

- Corporate Tax Reduction (tax discount rate: 100%, investment contribution rate: 104%, ratio of investment contribution to investment period: 100%),
- VAT exemption,
- Customs Duty Exemption,
- VAT refund
- Insurance Premium Employer's Share Support (without maximum amount limit 10 years),
- Income Tax Withholding Support (10 years)
- Qualified Personnel Support (maximum 10 TL),
- Interest and / or Profit Share Support (maximum 10 years from the date of credit usage, not exceeding TL 105),
- Energy Support (up to 10 years from the date of commencement, 50% of energy consumption expenditures should not exceed TL 300)

As of 31 December 2019, the Group has a tax deduction benefit of TL 1,355,157 to be used in the subsequent periods.

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 27 - EARNINGS PER SHARE

	1 January- 31 December 2019	1 January- 31 December 2018
Net profit	1,064,180	597,406
Weighted average number of shares:		
Weighted average number of ordinary shares (*)	83,000,000,000	83,000,000,000
Earnings per share with a nominal value of 1 TL (uncut TL)	1.2821	0.7198

(*) Between 24 November 2017 and 29 November 2017, the Group has repurchased a total of 159,388,400 SASA's shares within a price range of TL 6.40 - TL 6.69 (TL-Exact) with the total transaction amounting to 10,532,055 (TL-Full), on 23 May 2019, a total of 1,000,000,000 shares within a price range of TL 5.07 – TL 5.29 (TL-Full) with the total transaction amounting to TL 5,155,926 (TL-Full). The total share of the Group has reached the nominal value of TL 2,594,000 and the rate of 0.5069% (Note: 17).

NOTE 28 - RELATED PARTY DISCLOSURES

a) Receivables from related parties:

	31 December 2019	31 December 2018
Merinos Halı San. Tic. A.Ş.	73,642	19,986
Özerdem Mensucat San. Tic. A.Ş.	24,335	51,920
Zeki Mensucat Sanayi ve Tic. A.Ş.	1,479	-
	99,456	**71,906**

b) Other receivables from related parties:

	31 December 2019	31 December 2018
Dinarsu İmalat ve Ticaret T.A.Ş.	-	171,967
Merinos Halı San. Tic. A.Ş.	-	158,009
	-	**329,976**

Other receivables from related parties comprises for the utilization of the Group's excess fund in optimal way. As at 31 December 2018, other receivables from related parties's currency was Euro and weighted average interest rate was 4.20%. As at 31 December 2019, the Group has not any other receivables from related parties.

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 28 - RELATED PARTY DISCLOSURES (cont'd)

c) Sales to related parties:

	1 January - 31 December 2019	1 January - 31 December 2018
	Goods	**Goods**
Merinos Halı San. Tic. A.Ş.	103,058	31,245
Özerdem Mensucat San. Tic. A.Ş.	77,814	94,114
Zeki Mensucat Sanayi ve Tic. A.Ş.	71,970	8,181
Dinarsu İmalat ve Ticaret T.A.Ş.	75	297
Merinos Mobilya Tekstil San. Tic. A.Ş.	-	33
	252,917	**133,870**

d) Purchases from related parties:

	1 January - 31 December 2019	1 January - 31 December 2018
	Goods	**Goods**
Özerdem Mensucat San. Tic. A.Ş.	2,186	-
Merinos Mobilya Tekstil San. Tic. A.Ş.	260	460
Merinos Halı San. Tic. A.Ş.	256	50
	2,702	**510**

e) Interest income from related parties:

	1 January - 31 December 2019	1 January - 31 December 2018
Dinarsu İmalat ve Ticaret T.A.Ş.	11,074	6,772
Merinos Halı San. Tic. A.Ş.	8,012	13,728
	19,086	**20,500**

f) Financial foreign exchange income from related parties:

	1 January - 31 December 2019	1 January - 31 December 2018
Dinarsu İmalat ve Ticaret T.A.Ş.	15,979	4,280
Merinos Halı San. Tic. A.Ş.	7,055	79,213
Özerdem Mensucat San. Tic. A.Ş.	2,600	12,854
Zeki Mensucat San. Tic. A.Ş.	370	69
	26,004	**96,416**

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 28 - RELATED PARTY DISCLOSURES (cont'd)

g) Remuneration of Board of Directors and key management personnel and similar benefits:

The remunerations and similar benefits paid to the Board of Directors and senior management during the periods ended at 31 December 2019 and 2018 are as follows:

	1 January - 31 December 2019	**1 January - 31 December 2018**
Short-term benefits provided to key management	2,371	1,625
	2,371	**1,625**

NOTE 29 – DERIVATIVE INSTRUMENTS

	31 December 2019	**31 December 2018**
Derivative financial assets		
Presenting the derivative instruments for hedging purposes at fair value:		
Foreign currency forward contracts	1,042	-
	1,042	-

Classification of derivative instruments

Derivative instruments held for speculative purposes, which do not meet the hedge accounting requirements, are classified as "for trading purposes" and their fair value changes are reflected in profit or loss. Assets related to derivative instruments that are expected to be closed within 12 months after the balance-sheet date are presented as current assets, and such liabilities are presented as short-term liabilities.

Fair value measurement of derivative instruments

Information about the methods and assumptions used in determining the fair values of the derivatives is explained in Note 30.

Amounts recognized in profit or loss

The following amounts are recognized in the statement of profit or loss for foreign currency forward contracts during the year:

	1 January - 31 December 2019	**1 January - 31 December 2018**
Net exchange difference profit presented under other income	1,042	-

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 30 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of financial debts as explained in Note 4 and cash and cash equivalents, equity items, comprising paid-in capital, restricted profit reserves and retained earnings**.**

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

As of 31 December 2019 and 2018, the net debt/capital ratio calculated as net debt divided by total capital (net debt is calculated as total borrowings less cash and cash equivalents and short-term financial investments) is as follows:

	31 December 2019	**31 December 2018**
Financial Borrowings	4,329,643	2,041,429
Less: Cash and cash equivalents	(129,196)	(56,411)
Net Debt	4,200,447	1,985,018
Total Equity	2,585,101	1,735,230
Total Capital	6,785,548	3,720,248
Net Debt/Total Capital Ratio	62%	53%

NOTE 30 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

b) Financial Risk Management

Financial risk factors

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group. The Group uses derivatives for hedging purposes.

The Group's risk management is implemented by the Group's Treasury Department according to approved policies by Board of Directors. Treasury Department detects and evaluates financial risks and relieve of a risk through close relations with other departments of the Group.

b.1) Credit risk management

Credit risk consists of cash and cash equivalents, deposits at banks, customers subject to credit risk due to uncollected receivables.

Receivables

The Group implements Credit Control procedure approved by the Board of Directors in order to manage credit risk due to receivables from customers. According to the procedure, the Group determine a risk limit for every single customer (except related parties) by taking into consideration receivable insurance, bank guarantee, mortgage and other guarantees and sales are conducted without exceeding customer risk limits. In circumstances where these guarantees do not exist or it is required to exceed the guarantees, sales are conducted through determined internal limits which are specified in the procedure.

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 30 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Management (cont'd)

b.1) Credit risk management (cont'd)

Receivables (cont'd)

	Receivables					
	Trade Receivables		Other Receivables		Deposit	Derivative
31 December 2019	Related Party	Third Party	Related Party	Third Party	at Bank	Instruments
Maximum credit risk exposure as of balance sheet date	99,456	397,564	-	4,945	101,344	1,042
Guaranteed maximum risk by commitment or etc. (*)	-	378,932	-	-	-	-
Net book-value of non-overdue of unimpaired financial asset	99,456	355,599	-	4,945	101,344	1,042
Net book value of financial assets that would be overdue or impaired unless restricted	-	-	-	-	-	-
Net book value of overdue assets that are not impaired	-	41,965	-	-	-	-
The part that is guaranteed by commitment or etc.	-	23,333	-	-	-	-
Net book value of impaired assets	-	-	-	-	-	-
- Overdue (gross book value)	-	681	-	-	-	-
- Impairment		(681)	-	-	-	-

(*) Commitments include receivable insurance, bank collateral, and mortgages.

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 30 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Management (cont'd)

b.1) Credit risk management (cont'd)

Receivables (cont'd)

	Receivables				
	Trade Receivables		Other Receivables		Deposit
31 December 2018	**Related Party**	**Third Party**	**Related Party**	**Third Party**	**at Bank**
Maximum credit risk exposure as of balance sheet date	71,906	388,694	329,976	2,002	28,245
Guaranteed maximum risk by commitment or etc. (*)	-	291,937	-	-	-
Net book-value of non-overdue of unimpaired financial asset	71,906	368,589	329,976	2,002	28,245
Net book value of financial assets that would be overdue or impaired unless restricted	-	-	-	-	-
Net book value of overdue assets that are not impaired	-	20,105	-	-	-
The part that is guaranteed by commitment or etc	-	12,554	-	-	-
Net book value of impaired assets	-	-	-	-	-
- Overdue (gross book value)	-	171	-	-	-
- Impairment		(171)	-	-	-

(*) Commitments include receivable insurance, bank collateral, and mortgages.

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 30 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Management (cont'd)

b.1) Credit risk management (cont'd)

Receivables (cont'd)

As of 31 December 2019 and 2018, the details of the assets that are past due but not impaired are as follows:

Trade receivables	**31 December 2019**	**31 December 2018**
Overdue 1-30 days	39,529	18,752
Overdue 1-3 months	2,850	1,270
Overdue 3-12 months	267	254
Total	**42,646**	**20,276**
Portion under the guarantee of collaterals,etc.(*)	23,333	12,554

(*) Guarantees include receivable insurance, bank collateral, and mortgages.

b.2) Liquidity risk management

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of credit transactions, and the ability to close out market positions. Due to the dynamic content of the business environment, the Group aimed at flexibility in funding by keeping loans ready.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group has to pay. The table includes both interest and principal cash flows. The tables have been drawn up based on undiscounted net cash inflows / (outflows) on derivative instruments that sete on a net basis and the undiscounted gross inflows / (outflows) on those derivatives that require gross setement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 30 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Management (cont'd)

b.2) Liquidity risk management (cont'd)

Liquidity Risk (cont'd)

As of 31 December 2019,

Contractual maturities

Non-Derivative Financial Liabilities

	Book value	Total cash ouflow	Less than 3 months	3-12 months	1-5 years	More than 5 years
Bank loans	4,310,903	4,781,155	445,969	2,264,905	1,517,759	552,522
Financial leasing liabilities	18,740	20,333	1,021	3,062	16,250	-
Trade payables	608,805	608,218	466,186	142,032	-	-

Expected maturities

	Book value	Total cash ouflow	Less than 3 months	3-12 months	1-5 years	More than 5 years
Trade payables	69,042	69,738	69,738	-	-	-
Other payables	12,216	12,216	12,216	-	-	-

As of 31 December 2018,

Contractual maturities

Non-Derivative Financial Liabilities

	Book value	Total cash ouflow	Less than 3 months	3-12 months	1-5 years	More than 5 years
Bank loans	2,041,429	2,197,885	356,674	538,974	982,522	319,715

Expected maturities

	Book value	Total cash ouflow	Less than 3 months	3-12 months	1-5 years	More than 5 years
Trade payables	121,461	121,461	87,309	34,152	-	-

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 30 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Management (cont'd)

b.3) Market risk management (cont'd)

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

1. Forward foreign exchange contracts to hedge the exchange rate risk arising from foreign currency payables

Market risk exposures are supplemented by sensitivity analysis and stress scenarios.

There has been no change to the Group's exposure to market risks or the manner which it manages and measures the risks, since last year.

b.3.1) Foreign exchange risk management

The Group is subject to foreign exchange risk due to foreign currency denominated liabilities and assets translation to Turkish Lira. Foreign exchange risk is traced and minimized through the analysis of foreign currency position.

The details of the Group's foreign currency denominated monetary and non-monetary assets and monetary and non-monetary liabilities as of balance sheet date are shown below:

Assets and liabilities denominated in foreign currencies at 31 December 2019 and 2018 are as follows:

	31 December 2019		
	TL Equivalent	**USD**	**Euro**
Trade receivables	480,972	51,658	26,180
Monetary financial assets (Including cash and banks)	124,558	4,795	14,446
Other	207,718	14,886	17,937
Current assets	**813,248**	**71,339**	**58,563**
Total assets	**813,248**	**71,339**	**58,563**
Trade payables (Including other payables)	646,260	62,807	41,075
Financial liabilities	2,420,599	-	363,967
Other	25,139	-	3,780
Short-term liabilities	**3,091,998**	**62,807**	**408,822**
Financial liabilities	1,296,588	-	194,958
Long-term liabilities	**1,296,588**	**-**	**194,958**
Total liabilities	**4,388,586**	**62,807**	**603,780**
Foreign currency asset position	**(3,575,338)**	**8,532**	**(545,217)**
Derivative contracts net foreign currency position	1,042	-	157
Net foreign currency position	**(3,574,296)**	**8,532**	**(545,060)**

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 30 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Management (cont'd)

b.3) Market risk management (cont'd)

b.3.1) Foreign currency risk management (cont'd)

	31 December 2018		
	TL Equivalent	**USD**	**Euro**
Trade receivables	469,507	55,098	29,804
Monetary financial assets (Including cash and banks)	45,881	1,629	6,182
Other	582,136	2,058	94,776
Current assets	**1,097,524**	**58,785**	**130,762**
Total assets	**1,097,524**	**58,785**	**130,762**
Trade payables (Including other payables)	257,324	9,701	34,211
Financial liabilities	723,769	2,044	118,284
Other	2,743	510	10
Short-term liabilities	**983,836**	**12,255**	**152,505**
Financial liabilities	1,186,328	-	196,803
Long-term liabilities	**1,186,328**	**-**	**196,803**
Total liabilities	**2,170,164**	**12,255**	**349,308**
Net foreign currency position	**(1,072,640)**	**46,530**	**(218,546)**

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 30 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Management (cont'd)

b.3) Market risk management (cont'd)

b.3.1) Foreign currency risk management (cont'd)

Sensitivity to foreign currency risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US Dollar and EURO.

The following table details the Group's sensitivity to a 10% increase and decrease in US Dollar and EURO against. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. This analysis includes external bank loans. A positive number below indicates an increase in profit/loss or equity.

	Profit / (Loss)	
As of 31 December 2019;	**Appreciation of foreign currency**	**Depreciation of foreign currency**
10% change in US Dollar /TL parity:		
US Dollar net asset	5,068	(5,068)
US Dollar net hedged amount	-	-
US Dollar net effect	**5,068**	**(5,068)**
10% change in EUR /TL parity:		
EUR net asset	(362,602)	362,602
EUR net hedged amount	104	(104)
EUR net effect	**(362,498)**	**362,498**
Total	**(357,430)**	**357,430**

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 30 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Management (cont'd)

b.3) Market risk management (cont'd)

b.3.1) Foreign currency risk management (cont'd)

Sensitivity to foreign currency risk (cont'd)

	Profit / (Loss)	
As of 31 December 2018;	**Appreciation of foreign currency**	**Depreciation of foreign currency**
10% change in US Dollar /TL parity:		
US Dollar net asset	24,478	(24,478)
US Dollar net hedged amount	-	-
US Dollar net effect	**24,478**	**(24,478)**
10% change in EUR /TL parity:		
EUR net asset	(131,740)	131,740
EUR net hedged amount	-	-
EUR net effect	**(131,740)**	**131,740**
Total	**(107,262)**	**107,262**

Fair value of financial instruments:

It is considered that the registered values of financial assets and liabilities reflect their fair values.

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 30 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Management (cont'd)

b.3) Market risk management (cont'd)

b.3.1) Foreign currency risk management (cont'd)

Foreign exchange forward contracts

The Group makes foreign exchange forward contracts for trading purposes. The table below gives details of forward foreign exchange purchase / sale contracts that have not been realized as of the report date.

Hedging instruments - open contracts:	Average rate		Nominal amount: Foreign currency		Nominal amount: Turkish Lira		Recorded values of hedging instruments	
	31 December 2019 TL	31 December 2018 TL	31 December 2019 FC	31 December 2018 FC	31 December 2019 TL	31 December 2018 TL	31 December 2019 TL	31 December 2018 TL
Cash flow hedging transaction								
EUR purchase								
Between 3-6 months	6.62	-	1,663	-	10,913	-	327	-
Between 3-12 months	7.02	-	2,959	-	20,758	-	715	-
							1,042	-

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 30 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

b) Financial Risk Management (cont'd)

b.3) Market risk management (cont'd)

b.3.2) Interest rate risk management

The Group is exposed to interest rate risk due to the effect of changes in interest rates on assets and liabilities bearing interest. The Group evaluates its cash assets that it holds and does not use time deposits. Other income and cash flows from operations are largely independent of changes in market interest rates.

In order to minimize the interest rate risk, the Group carries out works to ensure borrowings from the rates under the most optimal conditions.

Interest Rate Position Table

Fixed interest rate financial instrument	**31 December 2019**	**31 December 2018**
Principle	1,665,368	1,039,792
Interest	33,982	28,994
Total fixed financial liabilities	**1,699,350**	**1,068,786**

Floating interest financial instrument	**31 December 2019**	**31 December 2018**
Principle	2,609,907	970,879
Interest	20,386	1,764
Total floating financial liabilities	**2,630,293**	**972,643**

As at 31 December 2019, if the TL denominated interest rate had been 100 basis points higher/lower and all other variables held constant, profit before tax and non-controlling interest would decrease/increase by TL 788 (31 December 2018: TL 105).

Funding risk

The ability to fund the existing and prospective debt requirements is managed by maintaining the availability of adequately committed funding lines from high quality lenders.

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 31 - FINANCIAL INSTRUMENTS (FAIR VALUE DISCLOSURES AND EXPLANATIONS ON HEDGE ACCOUNTING)

31 December 2019	Financial assets/liabilities at amortized cost	Financial instruments at FVTPL	Book value	Note
Financial assets				
Cash and cash equivalents	101.348	-	101.348	3
Trade receivables	397.564	-	397.564	5
Receivables from related parties	99.456	-	99.456	5
Other financial assets	220.965	-	220.965	7-16
Derivative financial instruments	-	1.042	1.042	29
Financial liabilities				
Financial borrowings	4.329.643	-	4.329.643	4
Trade payables	677.847	-	677.847	5
Other financial liabilities	12.216	-	12.216	7
31 December 2018				
Financial assets				
Cash and cash equivalents	28.272	-	28.272	3
Trade receivables	388.694	-	388.694	5
Receivables from related parties	71.906	-	71.906	5
Other financial assets	399.642	-	399.642	7-16
Financial liabilities				
Financial borrowings	2.041.429	-	2.041.429	4
Trade payables	316.577	-	316.577	5
Other financial liabilities	3.646	-	3.646	7

The Group Management believes that the carrying values of the financial instuments reflect their fair values.

(All amounts are expressed in thousand Turkish Lira (TL) unless otherwise stated.)

NOTE 31 - FINANCIAL INSTRUMENTS (FAIR VALUE DISCLOSURES AND EXPLANATIONS ON HEDGE ACCOUNTING) (cont'd)

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined and grouped as follows:

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2: the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- Level 3: the fair value of the financial assets and financial liabilities are determined where there is no observable market data.

Financial assets and liabilities of the Group have been calculated at their fair values in the reporting period. The table below shows how the fair values of financial instruments are determined.

	Fair value			
Financial assets	31 December 2019	31 December 2018	Fair value level	Revaluation method
Forward exchange contracts	1,042	-	2	It is determined by using the generally-accepted pricing model in observable market transactions.

NOTE 32 - EVENTS AFTER THE BALANCE SHEET DATE

As declared in the announcement dated 20 February 2020, the Group has authorized a European-based international financial institution for the issuance of Convertible Bond with a maturity of 5-year, and up to EUR 150 million, all of which are to be sold to qualified investors, provided that legal permits are obtained.