

**(CONVENIENCE TRANSLATION OF CONDENSED
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH)**

ARÇELİK ANONİM ŞİRKETİ

**JANUARY 1 - SEPTEMBER 30, 2018 CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS**

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ARÇELİK ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2018, AND DECEMBER 31, 2017

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

		Unaudited	Audited
	Notes	September 30,	December 31,
		2018	2017
ASSETS			
Current assets:			
Cash and cash equivalents	4	4,225,164	2,581,964
Trade receivables			
-Due from related parties	27	21,397	13,609
-Trade receivables, third parties	8	9,392,843	6,504,009
Derivative instruments	7	70,245	9,133
Inventories	9	6,201,330	3,779,928
Prepaid expenses	16	215,125	106,686
Current income tax assets	17	146,624	106,532
Other current assets	19	604,684	398,838
Total current assets		20,877,412	13,500,699
Non-current assets:			
Financial investments	5	2,169	2,552
Trade receivables			
-Trade receivables, third parties	8	43,284	12,429
Derivate instruments	7	113,588	38,249
Investments accounted for using the equity method	11	378,487	282,261
Property, plant and equipment	12	4,468,407	3,264,771
Intangible assets			
-Goodwill		611,409	438,112
-Other intangible assets	13	2,915,313	2,140,338
Prepaid expenses		226,836	109,077
Deferred tax assets	25	851,662	648,007
Total non-current assets		9,611,155	6,935,796
Total assets		30,488,567	20,436,495

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

ARÇELİK ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2018, AND DECEMBER 31, 2017

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

		Unaudited	Audited
	Notes	September 30, 2018	December 31, 2017
LIABILITIES			
Current liabilities:			
Short-term borrowings	6	3,188,776	2,299,697
Short-term portion of long-term borrowings	6	1,498,210	962,490
Trade payables			
-Due to related parties	27	770,426	550,948
-Trade payables, third parties	8	5,274,351	3,024,620
Derivative instruments	7	78,632	13,888
Employee benefit obligations	18	372,226	323,515
Other payables			
-Due to related parties	27	31,546	19,712
-Other payables, third parties	10	401,792	242,655
Current income tax liabilities	25	40,390	28,053
Provisions			
-Other provisions	15	654,999	430,630
Other current liabilities	19	883,221	506,812
Total current liabilities		13,194,569	8,403,020
Non-current liabilities:			
Long-term borrowings	6	6,835,560	4,113,916
Other payables			
-Due to related parties	27	39,893	40,246
Provisions			
-Provision for employee benefits		310,181	241,758
-Other provisions	15	245,051	232,163
Deferred tax liabilities	25	620,574	439,909
Other non-current liabilities		241,314	50,406
Total non-current liabilities		8,292,573	5,118,398
Total liabilities		21,487,142	13,521,418

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ARÇELİK ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2018, AND DECEMBER 31, 2017

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

		Unaudited September 30, 2018	Audited December 31, 2017
	Notes		
EQUITY			
Paid-in capital	20	675,728	675,728
Adjustment to share capital	20	468,811	468,811
Share premium/discount		889	889
Other accumulated comprehensive income and expense not to be reclassified to profit or loss			
Gains/ losses on revaluation and remeasurement			
-Gain/loss arising from defined benefit plans		(164,190)	(112,902)
Other accumulated comprehensive income and expense to be reclassified to profit or loss			
-Currency translation differences		4,013,820	1,622,125
Gains/ losses on hedge			
-Gains/ losses on hedges of net investment in foreign operations		(711,915)	(419,715)
-Gains/ losses on cash flow hedges		17,691	7,263
Gains/ losses on revaluation and reclassification			
- Gains/ losses on financial assets measured at fair value through other comprehensive income		1,645	2,009
Balancing account for merger capital	20	14,507	14,507
Restricted reserves	20	409,115	368,993
Retained earnings		3,663,309	3,410,341
Net income for the period		571,922	842,949
Equity holders of the parent		8,961,332	6,880,998
Non-controlling interest		40,093	34,079
Total equity		9,001,425	6,915,077
Total liabilities and equity		30,488,567	20,436,495
Commitments, contingent assets and liabilities	14		

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

ARÇELİK ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE INTERIM PERIOD ENDED SEPTEMBER 30, 2018

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

	Notes	Unaudited			
		January 1- September 30, 2018	January 1- September 30, 2017	July 1- September 30, 2018	July 1- September 30, 2017
Net sales	3	19,490,122	15,134,941	7,696,011	5,439,610
Cost of sales		(13,354,694)	(10,378,003)	(5,185,275)	(3,714,987)
Gross profit	3	6,135,428	4,756,938	2,510,736	1,724,623
General administrative expenses		(891,503)	(658,963)	(353,604)	(231,867)
Marketing expenses		(3,752,295)	(2,887,091)	(1,509,756)	(1,047,777)
Research and development expenses		(141,064)	(123,483)	(51,018)	(39,978)
Other income from operating activities	21	1,801,299	425,774	1,133,164	155,483
Other expenses from operating activities	21	(656,836)	(230,451)	(345,858)	(57,061)
Operating profit		2,495,029	1,282,724	1,383,664	503,423
Income from investment activities	22	8,204	7,281	1,457	5,071
Expenses from investment activities	22	(3,896)	(5,254)	(150)	(3,159)
Share of profit/loss of investments accounted for using the equity method	11	15,481	37,244	(18,797)	11,429
Operating income before financial income/(expense)		2,514,818	1,321,995	1,366,174	516,764
Financial income	23	2,497,576	604,916	1,599,003	192,324
Financial expenses	24	(4,333,284)	(1,218,324)	(2,633,333)	(450,640)
Profit from continuing operations before tax		679,110	708,587	331,844	258,448
Tax income/(expense), continuing operations					
- Taxes on income	25	(204,262)	(138,999)	(122,949)	(36,077)
- Deferred tax income	25	100,086	185,637	43,862	35,168
Net income		574,934	755,225	252,757	257,539
Attributable to:					
Non-controlling interest		3,012	2,160	1,515	1,309
Equity holders of the parent		571,922	753,065	251,242	256,230
Earnings per share (kurus)	26	0.846	1.114	0.372	0.379
Diluted earnings per share (kurus)	26	0.846	1.114	0.372	0.379

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

ARÇELİK ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE INTERIM PERIOD ENDED SEPTEMBER 30, 2018

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

	Unaudited			
	January 1- September 30, 2018	January 1- September 30, 2017	July 1- September 30, 2018	July 1- September 30, 2017
Net income	574,934	755,225	252,757	257,539
Other comprehensive income:				
Not to be reclassified to profit or loss	(64,036)	(13,742)	(7,945)	4,814
Gain/ loss arising from defined benefit plans	(63,787)	(13,453)	(7,825)	5,087
Share of other comprehensive income of investments accounted for using equity method that will not be reclassified to profit or loss	(249)	(289)	(120)	(273)
Not to be reclassified to profit or loss, tax effect	12,748	2,668	1,558	(1,018)
Gain/ loss arising from defined benefit plans, tax effect	12,748	2,668	1,558	(1,018)
To be reclassified to profit or loss	2,042,237	207,261	1,483,328	56,032
Currency translation differences	2,378,792	279,792	1,710,341	87,103
Other comprehensive income related with hedges of net investments in foreign operations	(374,615)	(72,372)	(252,504)	(28,410)
Gain/ loss on financial assets measured at fair value through other comprehensive income	(383)	(174)	50	(841)
Share of other comprehensive income of investments accounted for using the equity method that will be reclassified to profit or loss	10,428	15	5,933	(1,820)
Currency translation differences of investments accounted for using the equity method	28,015	-	19,508	-
To be reclassified to profit or loss, tax effect	82,434	14,484	55,548	5,724
Other comprehensive income related with hedges of net investments in foreign operations, tax effect	82,415	14,475	55,551	5,682
Gain/ loss on financial assets measured at fair value through other comprehensive income, tax effect	19	9	(3)	42
Other comprehensive income/ (loss) (net of tax)	2,073,383	210,671	1,532,489	65,552
Total comprehensive income	2,648,317	965,896	1,785,246	323,091
Attributable to:				
Non-controlling interest	18,124	5,269	10,720	2,411
Equity holders of the parent	2,630,193	960,627	1,774,526	320,680

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

ARÇELİK ANONİM ŞİRKETİ**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE INTERIM PERIOD ENDED SEPTEMBER 30, 2018**

Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

					Other accumulated comprehensive income and expense not to be reclassified to profit or loss	Other accumulated comprehensive income and expense to be reclassified to profit or loss				Accumulated profit				
	Paid-in capital	Adjustment to share capital	Share premium /discount	Balancing account for merger capital	Gain/(loss) arising from defined benefit plans	Gains/ losses on hedge	Gains/losses on revaluation and reclassification	Currency translation differences	Restricted reserves	Retained earnings	Net income	Equity holders of the parent	Non- controlling interest	Total equity
Balance at January 1, 2017	675,728	468,811	889	14,507	(94,522)	(316,895)	2,183	1,022,912	329,872	2,574,550	1,299,912	5,977,947	26,630	6,004,577
Transfers	-	-	-	-	-	-	-	-	39,121	1,260,791	(1,299,912)	-	-	-
Total comprehensive income	-	-	-	-	(11,074)	(57,882)	(165)	276,683	-	753,065	753,065	960,627	5,269	965,896
Net income	-	-	-	-	-	-	-	-	-	753,065	753,065	2,160	755,225	
Other comprehensive income	-	-	-	-	(11,074)	(57,882)	(165)	276,683	-	-	-	207,562	3,109	210,671
Dividends paid (Note 20)	-	-	-	-	-	-	-	-	-	(425,000)	-	(425,000)	-	(425,000)
As of September 30, 2017	675,728	468,811	889	14,507	(105,596)	(374,777)	2,018	1,299,595	368,993	3,410,341	753,065	6,513,574	31,899	6,545,473
Balance at January 1, 2018	675,728	468,811	889	14,507	(112,902)	(412,452)	2,009	1,622,125	368,993	3,410,341	842,949	6,880,998	34,079	6,915,077
Restatements to mandatory changes in accounting policies (Note 2)	-	-	-	-	-	-	-	-	-	(114,859)	-	(114,859)	-	(114,859)
TFRS 15 impact due to policy change, net	-	-	-	-	-	-	-	-	-	(111,693)	-	(111,693)	-	(111,693)
TFRS 9 impact due to policy change, net	-	-	-	-	-	-	-	-	-	(3,166)	-	(3,166)	-	(3,166)
Restated balances	675,728	468,811	889	14,507	(112,902)	(412,452)	2,009	1,622,125	368,993	3,295,482	842,949	6,766,139	34,079	6,800,218
Transfers	-	-	-	-	-	-	-	-	40,122	802,827	(842,949)	-	-	-
Total comprehensive income	-	-	-	-	(51,288)	(281,772)	(364)	2,391,695	-	571,922	571,922	2,630,193	18,124	2,648,317
Net income	-	-	-	-	-	-	-	-	-	571,922	571,922	3,012	574,934	
Other comprehensive income	-	-	-	-	(51,288)	(281,772)	(364)	2,391,695	-	-	-	2,058,271	15,112	2,073,383
Dividends paid (Note 20)	-	-	-	-	-	-	-	-	-	(435,000)	-	(435,000)	(12,110)	(447,110)
As of September 30, 2018	675,728	468,811	889	14,507	(164,190)	(694,224)	1,645	4,013,820	409,115	3,663,309	571,922	8,961,332	40,093	9,001,425

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

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

ARÇELİK ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE INTERIM PERIOD ENDED SEPTEMBER 30, 2018

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

	Notes	Unaudited	
		2018	2017
Cash flows from operating activities:			
Net income:		574,934	755,225
<i>Adjustments to reconcile net cash provided from operating activities to net income after taxes</i>			
Adjustments for tax expense (income)	25	104,176	(46,638)
Adjustments for depreciation and amortisation expense		495,524	403,910
Adjustments for impairment loss	29	29,636	8,556
Adjustments for provisions	29	637,229	386,451
Adjustments for interest expense	24	696,934	414,800
Adjustments for interest income	23	(37,979)	(24,450)
Adjustments for undistributed profits of investments accounted for using equity method	11	(15,481)	(37,244)
Adjustments for fair value (gains) losses on derivative financial instruments	23, 24	(249,206)	126,218
Adjustments for unrealised foreign exchange losses (gains)	23, 24	1,416,729	90,005
Other adjustments to reconcile profit (loss)	23, 24	9,230	6,835
Adjustments for income arised from government grants		(46,950)	(45,005)
Adjustments for dividend (income) expenses	22	(94)	(93)
Adjustments for losses (gains) on disposal of non-current assets	22	(4,214)	(1,934)
Net cash flow from operating activities before changes in operating assets and liabilities		3,610,468	2,036,636
Changes in operating assets and liabilities:			
Adjustments for decrease (increase) in trade receivables		(2,948,333)	(1,708,636)
Adjustments for decrease (increase) in inventories		(2,457,030)	(1,189,992)
Decrease (increase) in prepaid expenses		(108,439)	(36,694)
Adjustments for increase (decrease) in trade payables		2,469,209	783,686
Increase (decrease) in employee benefit liabilities		(82,352)	(66,321)
Adjustments for increase (decrease) in other operating payables		133,906	5,179
Increase (decrease) in government grants and assistance		40,701	48,196
Other adjustments for other increase (decrease) in working capital		(138,607)	(27,316)
Income taxes refund (paid)		(89,261)	(104,642)
Cash flows from operating activities		430,262	(259,904)
Investing activities:			
Purchase of property, plant, equipment and intangible assets		(1,077,008)	(582,951)
Proceeds from sales of property, plant, equipment and intangible assets		9,909	16,797
Advances given for fixed assets		(117,759)	(86,253)
Dividends received		26,264	13,178
Cash outflows from participations and / or joint ventures share acquisitions or capital increase	11	(57,237)	-
Cash flows from investing activities		(1,215,831)	(639,229)
Financing activities:			
Proceeds from borrowings		4,403,465	2,546,888
Repayments of borrowings		(2,081,393)	(1,415,946)
Dividends paid	20	(435,000)	(425,000)
Interest paid		(584,526)	(360,256)
Interest received		36,033	24,120
Cash receipts from future contracts, forward contracts, option contracts and swap contracts (net)		177,499	(17,139)
Other inflows (outflows) of cash	23, 24	(9,230)	(6,835)
Cash flows from financing activities		1,506,848	345,832
Net increase/(decrease) in cash and cash equivalents before currency translation differences		721,279	(553,301)
Effect of currency translation differences		919,976	93,974
Net increase/(decrease) in cash and cash equivalents		1,641,255	(459,327)
Cash and cash equivalents at January 1	4	2,580,893	2,441,652
Cash and cash equivalents at September 30	4	4,222,148	1,982,325

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

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2018

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 1 - GROUP’S ORGANISATION AND NATURE OF OPERATIONS

Arçelik Anonim Şirketi (“Arçelik” or “the Company”) and its subsidiaries (collectively, “the Group”) undertake all commercial and industrial activities in respect of the production, sales and marketing, customer services after sales, export and import of consumer durable goods and consumer electronics. The Group operates eighteen manufacturing plants in Turkey, Romania, Russia, China, Republic of South Africa, Thailand and Pakistan. The Company is controlled by Koç Holding A.Ş., the parent company, Koç Family and the companies owned by Koç Family (Note 20).

The Company’s head office is located at, Karaağaç Caddesi No:2-6 Sütlüce 34445 Beyoğlu Istanbul/Turkey.

The Company is registered to the Capital Markets Board (“CMB”) and its shares have been quoted on the Borsa Istanbul (“BIST”) since 1986. As of September 30, 2018, the publicly listed shares are 25.15% of the total shares. (December 31, 2017: 25.15%)

The average number of personnel employed by categories in the Group for the period ended September 30, 2018 is 6,742 white - collar (January 1-September 30, 2017: 6,339) and 23,071 blue – collar (January 1-September 30, 2017: 24,078) totaling to 29,813 (January 1-September 30, 2017: 30,417).

<u>Subsidiaries and branches</u>	<u>Country of incorporation</u>	<u>Core business</u>	<u>Nature of business</u>
Continuing operations as of reporting date			
Arçelik Pazarlama A.Ş. (“Pazarlama A.Ş.”)	Turkey	Service/Sales/Marketing	Consumer Durables/Electronics
Wat Motor San ve Tic. A.Ş. (“Wat Motor”)	Turkey	Production/Sales	Multi-Purpose Motor
Token Finansal Teknolojiler A.Ş. (“Token”)	Turkey	Information Techn.	Payment Systems
Ardutch B.V. (“Ardutch”)	Netherlands	Investment	Holding
Ardutch B.V. Taiwan (“Ardutch Taiwan”) ^(*)	Taiwan	Purchase	Consumer Durables/Electronics
Beko A and NZ Pty Ltd. (“Beko Australia”) ^(*)	Australia, New Zealand	Sales	Consumer Durables
Beko Appliances Malaysia Sdn. Bhd. (“Beko Malaysia”)	Malaysia	Sales	Consumer Durables
Beko Appliances Indonesia, PT (“Beko Indonesia”)	Indonesia	Sales	Consumer Durables
Beko Balkans D.O.O (“Beko Balkans”)	Serbia	Sales	Consumer Durables/Electronics
Beko Deutschland GmbH (“Beko Deutschland”)	Germany	Sales	Consumer Durables/Electronics
Beko Egypt Trading LLC (“Beko Egypt”)	Egypt	Sales	Consumer Durables
Beko Electronics España S.L. (“Beko Espana”)	Spain	Sales	Consumer Durables/Electronics
Beko France S.A.S. (“Beko France”)	France	Sales	Consumer Durables/Electronics
Beko Gulf FZE (“Beko Gulf”)	United Arab Emirates	Sales	Consumer Durables/Electronics
Beko Hong Kong Ltd. (“Beko Hong Kong”)	Hong Kong, China	Purchase	Consumer Durables/Electronics
Beko Italy SRL (“Beko Italy”)	Italy	Sales	Consumer Durables/Electronics
Beko LLC. (“Beko Russia”)	Russia	Production/Sales	Consumer Durables/Electronics
Beko Plc. (“Beko UK”) ^(*)	UK, Republic of Ireland	Sales	Consumer Durables/Electronics
Beko Slovakia S.R.O. (“Beko Slovakia”)	Slovakia	Sales	Consumer Durables/Electronics
Beko S.A. (“Beko Polska”) ^(*)	Poland, Czech Republic	Sales	Consumer Durables/Electronics
Beko Shanghai Trading Company Ltd. (“Beko Shanghai”)	China	Sales	Consumer Durables/Electronics
Beko Thai Co. (“Beko Thailand”)	Thailand	Production/Sales	Consumer Durables
Beko Ukraine LLC. (“Beko Ukraine”)	Ukraine	Sales	Consumer Durables
Beko US INC. (“Beko US”)	United States of America	Sales	Consumer Durables
Changzhou Beko Electrical Appliances Co. Ltd. (“Beko China”)	China	Production/Sales	Consumer Durables
Computer Vision Interaction S.A. (“CoVii”)	Portugal	R&D	Software
Dawlance Electronics (Pvt.) Ltd. (DEL)	Pakistan	Sales	Consumer Durables
Dawlance (Private) Ltd. (“DPL”)	Pakistan	Production/Sales	Consumer Durables
Defy Appliances (Proprietary) Ltd. (“Defy”)	Republic Of South Africa	Production/Sales	Consumer Durables
Defy (Botswana) (Proprietary) Ltd. (“Defy Botswana”)	Botswana	Sales	Consumer Durables
Defy (Namibia) (Proprietary) Ltd. (“Defy Namibia”)	Namibia	Sales	Consumer Durables
Defy (Swaziland) (Proprietary) Ltd. (“Defy Swaziland”)	Swaziland	Sales	Consumer Durables
Elektra Bregenz AG (“Elektra Bregenz”)	Austria	Sales	Consumer Durables/Electronics
Grundig Multimedia A.G. (“Grundig Switzerland”)	Switzerland	Sales	Electronics
Grundig Multimedia B.V. (“Grundig Multimedia”)	Netherlands	Investment	Holding
Grundig Intermedia GmbH (“Grundig Intermedia”) ^(*)	Germany, Croatia	Sales	Electronics
Grundig Nordic No AS (“Grundig Norway”)	Norway	Sales	Consumer Durables/Electronics
Grundig Nordic AB. (“Grundig Sweden”)	Sweden	Sales	Consumer Durables/Electronics
SC Arctic SA (“Arctic”)	Romania	Production/Sales	Consumer Durables/Electronics
United Refrigeration Industries Ltd. (“URIL”)	Pakistan	Production/Sales	Consumer Durables
Pan Asia Private Equity Ltd. (“Pan Asia”)	British Virgin Islands	Investment	Holding
Vietbeko Limited Liability Company (“Vietbeko”)	Vietnam	Sales	Consumer Durables

* Branches of the Subsidiary, which operate in a different country, are separately presented.

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2018

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 1 - GROUP’S ORGANISATION AND NATURE OF OPERATIONS (Continued)

<u>Subsidiaries and branches</u>	<u>Country of incorporation</u>	<u>Core business</u>	<u>Nature of business</u>
Ceased operations as of reporting date			
Archin Limited (“Archin”)	Hong Kong, China	-	-
Beko Cesko (“Beko Cesko”)	Czech Republic	-	-
Grundig Intermedia Ges.m.b.H (“Grundig Austria”)	Austria	-	-
Grundig Portuguesa, Lda (“Grundig Portugal”)	Portugal	-	-

Associates

Arçelik-LG Klima Sanayi ve Ticaret A.Ş. (“Arçelik-LG”)	Turkey	Production/Sales	Consumer Durables
Koç Finansman A.Ş. (“Koç Finansman”)	Turkey	Finance	Consumer Finance
Ram Dış Ticaret A.Ş. (“Ram Dış Ticaret”)	Turkey	Sales	Foreign Trade
Tanı Pazarlama İ.H.A.Ş. (“Tanı Pazarlama”)	Turkey	Consultancy	Marketing /Communication

Joint Ventures

VoltBek Home Appliances Private Limited (“VoltBek”)	India	Production/Sales	Consumer Durables
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(*) Voltbek is founded in 2017 to manufacture major domestic appliances and perform sales activities in Indian domestic market.

Approval of consolidated financial statements

These condensed interim consolidated financial statements as at and for the period ended 30 September 2018 has been approved for issue by the Board of Directors on 26 October 2018.

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation

Financial reporting standards

The consolidated financial statements of the Group have been prepared in accordance with the Turkish Accounting Standards/Turkish Financial Reporting Standards, (“TAS/TFRS”) and interpretations as adopted in line with international standards by the Public Oversight Accounting and Auditing Standards Authority (“POA”) in accordance with the communiqué numbered II-14,1 “Communiqué on the Principles of Financial Reporting In Capital Markets” (“the Communiqué”) announced by the CMB on June 13, 2013 and published on Official Gazette numbered 28676. TAS/TFRS are updated in harmony with the changes and updates in International Financial Reporting Standards (“IFRS”) by the communiqués announced.

The condensed interim consolidated financial statements are presented in accordance with “Announcement regarding with TAS Taxonomy” which was published on 2 June 2016 by POA and the format and mandatory information recommended by CMB.

For the period ended September 30, 2018, the Group prepared its condensed interim consolidated financial statements in accordance with the Turkish Accounting Standard No.34 Interim Financial Reporting. Condensed interim consolidated financial statements of the Group do not include all the information and disclosures required in the annual financial statements, therefore should be read in conjunction with the Group’s annual financial statements as of December 31, 2017.

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2018

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

With the decision taken on March 17, 2005, the CMB announced that, effective from January 1, 2005, the application of inflation accounting is no longer required for companies operating in Turkey. The Group has prepared its interim condensed consolidated financial statements in accordance with this decision. Consolidated financial statements have been prepared under the historical cost convention except for the derivative instruments and available for sale financial assets presented at fair values and revaluations related to the differences between carrying value and fair value of tangible and intangible assets arising from business combinations.

Condensed interim consolidated financial statements have been prepared under the historical cost convention except for the derivative instruments and financial investments presented at fair values and revaluations related to the differences between carrying value and fair value of tangible and intangible assets arising from business combinations.

New and amended standards and interpretations

The accounting policies adopted in preparation of the condensed interim consolidated financial statements as at September 30, 2018 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and IFRIC interpretations effective as of January 1, 2018. The effects of these standards and interpretations on the Group’s financial position and performance have been disclosed in the related paragraphs.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity is not required to apply this Interpretation to income taxes; or insurance contracts (including reinsurance contracts) it issues or reinsurance contracts that it holds. The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments will not have an impact on the financial position or performance of the Group.

TFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)

The TASB issued amendments to TFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions.

The amendments, provide requirements on the accounting for;

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments,
- share-based payment transactions with a net settlement feature for withholding tax obligations,
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments will not have an impact on the financial position or performance of the Group.

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2018

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

TAS 40 Investment Property: Transfers of Investment Property (Amendments)

The TASB issued amendments to TAS 40 'Investment Property'. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments will not have an impact on the financial position or performance of the Group.

Annual Improvements to TFRS - 2014-2016 Cycle

POA issued Annual Improvements to TFRS Standards 2014–2016 Cycle, amending the following standards:

- TFRS 1 First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some TFRS 7 disclosures, TAS 19 transition provisions and TFRS 10 Investment Entities. These amendments are to be applied for annual periods beginning on or after 1 January 2018.
- TAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organization or other qualifying entity at fair value through profit or loss applying TFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the interim consolidated financial statements as at September 30, 2018 are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

TFRS 9 Financial instruments

Effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from TAS 39. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

ARÇELİK ANONİM ŞİRKETİ

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2018**

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

TFRS 16 Leases

Effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if TFRS 15 ‘Revenue from Contracts with Customers’ is also applied. This standard replaces the current guidance in TAS 17 and is a far-reaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a ‘right of use asset’ for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

IFRIC 23 Uncertainty over income tax treatments

Effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 ‘Income taxes’, are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 ‘Provisions, contingent liabilities and contingent assets’, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

TAS 28 Investments in associates and joint venture

Effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2018

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Annual improvements 2015-2017

Effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:

- TFRS 3, ‘Business combinations’; – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- TFRS 11, ‘Joint arrangements’; – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- TAS 12, ‘Income taxes’; – a company accounts for all income tax consequences of dividend payments in the same way.
- TAS 23, ‘Borrowing costs’; – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.
- TAS 19, ‘Employee benefits’; on plan amendment, curtailment or settlement, use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement and recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The consolidated financial statements are presented in TRY, which is the functional currency of Arçelik and the presentation currency of the Group.

Financial statements of subsidiaries operating in countries other than Turkey

The Financial statements of subsidiaries operating in countries other than Turkey are compiled by the TAS/TFRS promulgated by the POA to reflect the proper presentation and content. Subsidiaries’ assets and liabilities are translated into TRY from the foreign exchange rate at the reporting date and income and expenses are translated into TRY at the average foreign exchange rate. Exchange differences arising from the translation of the opening net assets and differences between the average and balance sheet date rates are recognised in the “currency translation difference” under the use of equity.

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2018

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The table below sets out all Subsidiaries included in the scope of consolidation discloses their direct and indirect ownership, which are identical to their economic interests, as of September 30, 2018 and December 31, 2017 (%) and their functional currencies:

	Functional currency	September 30, 2018		December 31, 2017	
		Ownership interest	Effective shareholding	Ownership interest	Effective shareholding
Continuing operations as of balance sheet date:					
Arctic	Romanian Lei (“RON”)	96.72	96.72	96.72	96.72
Ardutch	Euro (“EUR”)	100.00	100.00	100.00	100.00
Ardutch Taiwan	Taiwanese Dollar (“TWD”)	100.00	100.00	100.00	100.00
Beko Australia	Australian Dollar (“AUD”)/ New Zealand Dollar (“NZD”)	100.00	100.00	100.00	100.00
Beko Balkans	Serbian Dinar (“SRD”)	100.00	100.00	100.00	100.00
Beko China	Chinese Yuan (“CYN”)	100.00	100.00	100.00	100.00
Beko Deutschland	Euro (“EUR”)	100.00	100.00	100.00	100.00
Beko Espana	Euro (“EUR”)	100.00	100.00	100.00	100.00
Beko Egypt	Egyptian Lira (“EGP”)	100.00	100.00	100.00	100.00
Beko France	Euro (“EUR”)	100.00	100.00	100.00	100.00
Beko Gulf ⁽³⁾	Dirham (“AED”)	100.00	100.00	-	-
Beko Hong Kong	US Dollar (“USD”)	100.00	100.00	100.00	100.00
Beko Indonesia	Indonesian Rupiah (“IDR”)	100.00	100.00	100.00	100.00
Beko Italy	Euro (“EUR”)	100.00	100.00	100.00	100.00
Beko Malaysia	Malaysian Ringgit (“MYR”)	100.00	100.00	100.00	100.00
Beko Polska	Polish Zloty (“PLN”)/ Czech Koruna (“CZK”)	100.00	100.00	100.00	100.00
Beko Russia	Russian Ruble (“RUB”)	100.00	100.00	100.00	100.00
Beko Slovakia	Euro (“EUR”)	100.00	100.00	100.00	100.00
Beko Shanghai	Chinese Yuan (“CNY”)	100.00	100.00	100.00	100.00
Beko Thailand	Thai Baht (“THB”)	100.00	100.00	100.00	100.00
Beko UK	British Pound (“GBP”)/ Euro (“EUR”)	100.00	100.00	100.00	100.00
Beko Ukraine	Ukrainian Hryvna (“UAH”)	100.00	100.00	100.00	100.00
Beko US	US Dollar (“USD”)	100.00	100.00	100.00	100.00
CoVii	Euro (“EUR”)	51.00	51.00	51.00	51.00
Dawlance Electronics	Pakistani Rupee (“PKR”)	100.00	100.00	100.00	100.00
Dawlance (Private)	Pakistani Rupee (“PKR”)	100.00	100.00	100.00	100.00
Defy	South African Rand (“ZAR”)	100.00	100.00	100.00	100.00
Defy Botswana	Botswana Pula (“BWP”)	100.00	100.00	100.00	100.00
Defy Namibia	Namibian Dollar (“NAD”)	100.00	100.00	100.00	100.00
Defy Swaziland	Svazi Lilangeni (“SZL”)	100.00	100.00	100.00	100.00
Elektra Bregenz	Euro (“EUR”)	100.00	100.00	100.00	100.00
Grundig Multimedia	Euro (“EUR”)	100.00	100.00	100.00	100.00
Grundig Intermedia	Euro (“EUR”)/ Croatian Kuna (“HRK”)	100.00	100.00	100.00	100.00
Grundig Norway	Norwegian Krone (“NOK”)	100.00	100.00	100.00	100.00
Grundig Sweden	Swedish Krona (“SEK”)	100.00	100.00	100.00	100.00
Grundig Switzerland	Swiss Franc (“CHF”)	100.00	100.00	100.00	100.00
United Refrigeration Industries	Pakistani Rupee (“PKR”)	100.00	100.00	100.00	100.00
Pan Asia	US Dollar (“USD”)	100.00	100.00	100.00	100.00
Pazarlama A.Ş.	Turkish Lira (“TRY”)	100.00	100.00	100.00	100.00
Wat Motor ⁽¹⁾	Turkish Lira (“TRY”)	100.00	100.00	-	-
Token ⁽²⁾	Turkish Lira (“TRY”)	100.00	100.00	-	-
Vietbeko	Vietnamese Dong (“VND”)	100.00	100.00	100.00	100.00
Ceased operations as of balance sheet date:					
Archin	-	100.00	100.00	100.00	100.00
Beko Cesko	-	100.00	100.00	100.00	100.00
Grundig Austria	-	100.00	100.00	100.00	100.00
Grundig Portugal	-	100.00	100.00	100.00	100.00

(1) In order to transform the multi-purpose motor production into a more efficient organization that will expand its product range and offer specific solutions to market needs; to transfer the whole of the assets and liabilities for industrial motor production, after-sales services and related R&D activities in the balance sheet without compromising the integrity of the business which is Arçelik A.Ş.’s 100% subsidiary is established with the partial demerger in 2018.

(2) In order to transform payment systems by focusing on the field of financial technology into a more flexible and new structure, to create value-added solutions in software-based retail and payment areas and to create new business models, to transfer the whole of the assets and liabilities for payment systems operations and related R&D activities in the balance sheet without compromising the integrity of the business which is Arçelik A.Ş.’s 100% subsidiary is established with the partial demerger in 2018.

(3) Established as sales company in May 2018.

ARÇELİK ANONİM ŞİRKETİ

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2018**

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

Going concern

The Group prepared its condensed interim consolidated financial statements in accordance with the going concern assumption.

Offsetting

Financial assets and liabilities are offset and reported in the net amount when there is a legally enforceable right or when there is an intention to settle the assets and liabilities on a net basis or realize the assets and settle the liabilities simultaneously.

Comparatives and restatement of prior periods’ financial statements

The condensed interim consolidated financial statements of the Group include comparative financial information to enable the determination of the trends in the financial position and performance. Comparative figures are reclassified, where necessary, to conform to changes in presentation in the current period condensed interim consolidated financial statements and the significant changes are explained.

Group has applied consistent accounting policies in the preparation of condensed interim consolidated financial statements presented except for the following changes and the Group does not have any other significant changes in accounting policy and accounting estimates in the current period.

Advances given for fixed assets amounting to TRY 109,077 which had been classified under current assets in prepaid expenses account in the consolidated statement of financial position as of 31 December 2017 has been reclassified under non-current assets to prepaid expenses account. Advances given for fixed assets amounting to TRY 86,253 which had been classified in cash flows from operating activities in the consolidated statement of cash flows for the interim period ended September 30, 2017 has been reclassified in cash flows from investing activities. These reclassifications performed in order to conform to changes in presentation in the current period consolidated financial statements are not material to the condensed interim consolidated financial statements.

Borrowings amounting to TRY 1,265,280 which had been classified under current liabilities in short-term portion of long-term borrowings account in the consolidated statement of financial position as of 31 December 2017 has been reclassified under current liabilities to short-term borrowings account.

Transition to TFRS 15 “Revenue from contracts with customers”

Group has applied TFRS 15 “Revenue from contracts with customers”, which has replaced TMS 18, by using cumulative effect method on the transition date, 1 January 2018. In accordance with this method, Group recorded the cumulative effect related to the transition of TFRS 15 in retained earnings on the first application date. Therefore, prior year financial statements are not restated and these financial statements are presented in accordance with TMS 18. In accordance with this method of transition, Group calculated the impact of transition for the active contacts as of 1 January 2018 and recorded the cumulative effect of transition in retained earnings.

Transition to TFRS 9 “Financial instruments”

Group has applied TFRS 9 “Financial instruments”, which has replaced TMS 39 on the transition date, 1 January 2018. The amendments include the classification and measurement of financial assets and liabilities and the expected credit risk model which will replace incurred credit risk model. Effect of transition is accounted based on the simplified approach.

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2018

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Transition to TFRS 9 “Financial instruments” (Continued)

In accordance with this method, Group recorded the cumulative effect related to the transition of TFRS 9 in retained earnings on the first application date. Therefore, prior year financial statements are not restated and these financial statements are presented in accordance with TMS 39.

Changes related to the classification of financial assets and liabilities are as follows and these changes in the classification do not result in changes in measurement of assets except for financial assets:

Financial assets	Original classification under TMS 39	New classification under TFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Trade receivables	Loans and receivables	Amortized cost
Derivative instruments	Fair value through statement of profit or loss	Fair value through statement of profit or loss
Financial assets	Available for sale financial assets	Fair value through other comprehensive income

Financial liabilities	Original classification under TMS 39	New classification under TFRS 9
Derivative instruments	Fair value through statement of profit or loss	Fair value through statement of profit or loss
Borrowings	Amortized cost	Amortized cost
Financial lease liabilities	Amortized cost	Amortized cost
Factoring liabilities	Amortized cost	Amortized cost
Trade payables	Amortized cost	Amortized cost

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2018

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Explanations related to the effects of TFRS 15 and TFRS 9 are as follows

Effects of the transition to TFRS 15 on the condensed interim consolidated financial statements as of 30 September 2018 are as follows:

September 30, 2018	Reported	Adjustments (*)	Balance before new standards applied
<i>Consolidated statement of financial position</i>			
Deferred tax assets	851,662	29,984	821,678
Other current liabilities	883,221	22,338	860,883
Other non-current provisions	245,051	(37,617)	282,668
Other non-current liabilities	241,314	156,957	84,357
<i>Consolidated statement of income or loss and other comprehensive income</i>			
Revenue	19,490,122	(20,301)	19,510,423
Tax income/(expense), net	(104,176)	3,732	(107,908)
<i>Consolidated cash flows</i>			
Net income from continuing operations	574,934	(16,569)	591,503

(*) Revenue impact from adjustments of extended warranty sales.

Effects of the transition to TFRS 9 on the condensed interim consolidated financial statements as of January 1, 2018 are as follows:

	January 1, 2018 restated	TFRS 9 effect	December 31, 2017 reported
<i>Consolidated statement of financial position</i>			
Short-term trade receivables (Net)	6,500,068	(3,941)	6,504,009
Deferred tax assets	648,782	775	648,007

Effects of the transition to TFRS 9 and TFRS 15 on the condensed interim consolidated financial statements as of 1 January 2018 are as follows:

Retained earnings - January 1	2018
Reported	4,253,290
Total adjustments due to the changes in TFRS 15	(111,693)
Total adjustments due to the changes in TFRS 9	(3,166)
Restated	4,138,431

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2018

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.2 Restatement and errors in the accounting policies and estimates

Any change in the accounting policies resulted from the first time adoption of a new standard is made either retrospectively or prospectively in accordance with the transition requirements. Changes without any transition requirement, material changes in accounting policies or material errors are corrected, retrospectively by restating the prior period consolidated financial statements. If changes in accounting estimates are related to only one period, they are recognized in the period when changes are applied; if changes in estimates are related to future periods, they are recognized both in the period where the change is applied and future periods prospectively.

Revenue recognition

Group recognizes revenue when the goods or services is transferred to the customer and when performance obligation is fulfilled. Goods is counted to be transferred when the control belongs to the customer.

Group recognizes revenue based on the following main principles:

- (a) Identification of customer contracts
- (b) Identification of performance obligations
- (c) Determination of transaction price in the contract
- (d) Allocation of price to performance obligations
- (e) Recognition of revenue when the performance obligations are fulfilled

Group recognized revenue from its customers only when all of the following criteria are met:

- (a) The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations,
- (b) Group can identify each party’s rights regarding the goods or services to be transferred,
- (c) Group can identify the payment terms for the goods or services to be transferred;
- (d) The contract has commercial substance,
- (e) It is probable that Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer’s ability and intention to pay that amount of consideration when it is due.

Revenue from sale of goods

Group recognizes revenue based on the production and sale of white goods, consumer electronics, air conditioners and home appliance. Revenue is recognized when the control of the goods is transferred to the customer. In addition, Group provides legal warranty commitment to its customers depending on the type of goods and the location of sale between 1-5 years. These legal warranty commitments are mandatory by regulations, have not a separate price apart from the good and are not separately sold. Therefore, they are not treated as a separate good or service apart from the sale of good.

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2018

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.2 Restatement and errors in the accounting policies and estimates (Continued)

Revenue from sale of extended warranty

Group sells extended warranty to its customer for the period after the termination of legal warranty provided for all goods. The price of extended warranty is determined separately from the price of the goods and it is a separate performance obligation in the contract. Therefore, Group treats the service that will be provided due to the sale of extended warranty as a separate performance obligation.

While evaluating the transfer of control of the goods and services to the customer, Group takes the followings into consideration,

- ownership of the collection right of the consideration
- ownership of the legal right on goods and services by the customer
- physical transfer of the good
- ownership of risk and rewards related to the good
- conditions of the customer for the acceptance of goods and services

Group determines at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time. Group delivers the control of services related to the sale of extended warranty over time and it fulfills the performance obligation of extended warranty over time. Therefore, Group measures the delivery status of its performance obligation and recognize revenue in the consolidated financial statements accordingly (Note 3). Group recognizes revenue from the sale of goods in the consolidated financial statements when the control of the good is transferred to the customer.

When another party is involved in providing goods or services to a customer, the group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself or to arrange for the other party to provide those goods or services. The group is a principal if it controls a promised good or service before the group transfers the good or service to a customer. When a group that is a principal satisfies a performance obligation, it recognizes as revenue the gross amount of consideration which it expects to be entitled to in exchange for those goods or services. The group is an agent if its performance obligation is to arrange for the provision of goods or services by another party.

Group recognizes revenue when it has right to collect the consideration which is equal to the price of performance obligation fulfilled by the perspective of customer (after the delivery of goods) in an amount of its right to invoice. Group expects that the difference between the timing of the transfer of goods of services determined at the beginning of the contact and the timing of the collection of transaction price by the customer does not differ more than one year and therefore transaction price does not contain a significant finance component.

Transaction price varies due to favors like discounts and rebates provided to the customers. Transaction price is determined based on the most likely amount method since Group provides bonus premium to its customers if the customers achieves the limit of sale.

Group recognizes a refund liability in the consolidated financial statements if the entity receives consideration from a customer and expects to refund some or all of that consideration to the customer. A refund liability is measured at the amount of consideration received (or receivable) for which the entity does not expect to be entitled. The refund liability is updated at the end of each reporting period for changes in circumstances.

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**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.2 Restatement and errors in the accounting policies and estimates (Continued)

Financial assets

Classification and measurement

Group classified its financial assets in three categories; financial assets carried at amortized cost, financial assets carried at fair value through profit or loss, financial assets carried at fair value through other comprehensive income. Classification is performed in accordance with the business model determined based on the purpose of benefits from financial assets and expected cash flows. Management performs the classification of financial assets at the acquisition date.

(a) Financial assets carried at amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, whose payments are fixed or predetermined, which are not actively traded and which are not derivative instruments are measured at amortized cost. They are included in current assets, except for maturities more than 12 months after the balance sheet date. Those with maturities more than 12 months are classified as non-current assets. The Group’s financial assets carried at amortized cost comprise “trade receivables” and “cash and cash equivalents” in the statement of financial position. In addition, with recourse factoring receivables classified in trade receivables are classified as financial assets carried at amortized cost since collection risk for those receivables are not transferred to counterparty.

Impairment

Group has applied simplified approach and used impairment matrix for the calculation of impairment on its receivables carried at amortized cost, since they do not comprise of any significant finance component. In accordance with this method, if any provision provided to the trade receivables as a result of a specific events, Group measures expected credit loss from these receivables by the life-time expected credit loss. The calculation of expected credit loss is performed based on the past experience of the Group and its expectations for the future indications.

(b) Financial assets carried at fair value

Assets that are held by the management for collection of contractual cash flows and for selling the financial assets are measured at their fair value. If the management do not plan to dispose these assets in 12 months after the balance sheet date, they are classified as non-current assets. Group make a choice for the equity instruments during the initial recognition and elect profit or loss or other comprehensive income for the presentation of fair value gain and loss:

i) Financial assets carried at fair value through profit or loss

Financial assets carried at fair value through profit or loss comprise of “derivative instruments” in the statement of financial position. Derivative instruments are recognized as asset when the fair value of the instrument is positive, as liability when the fair value of the instrument is negative. Group’s financial instruments at fair value through profit or loss consist of forward contracts, currency swaps and cross currency fixed interest rate swap.

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NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.2 Restatement and errors in the accounting policies and estimates (Continued)

ii) *Financial assets carried at fair value through other comprehensive income*

Financial assets carried at fair value through other comprehensive income comprise of “financial assets” in the statement of financial position. In addition, trade receivables collected from factoring companies due to without recourse factoring activities are classified as financial assets carried at fair value through other comprehensive income since the collection risk of these receivables are transferred to the factoring companies and management’s business plan for them is “hold to sell”.

When the financial assets carried at fair value through other comprehensive income are sold, fair value gain or loss classified in other comprehensive income is classified to retained earnings.

NOTE 3 - SEGMENT REPORTING

The reportable segments of Arçelik have been organized by management into white goods and consumer electronics. White goods reportable segment comprises washing machines, dryers, dish washers, refrigerators, ovens, cookers and the services provided for these products. The consumer goods reportable segment comprises televisions primarily with flat screens, computers, cash registers, other electronic devices and the services provided to consumers for these products. Other segment comprises the revenues from air conditioners, home appliances and furniture and kitchen gadgets except products included in white goods and consumer electronics.

Arçelik’s reportable segments are strategic business units that present various products and services. Each of these segments is administrated separately due to the necessity of different technologies and marketing strategies.

Gross profitability is evaluated regarding the performance of the operational segments. Information about the operational segments is as follows:

a) Operational segments which have been prepared in accordance with the reportable segments for the nine-month period ended September 30, 2018 are as follows:

	White goods	Consumer electronics	Other	Total
Net sales (*)	14,750,080	1,998,204	2,741,838	19,490,122
Gross profit	4,803,384	468,454	863,590	6,135,428
Depreciation and amortization	387,039	76,601	41,688	505,328
Capital expenditures	927,005	123,030	36,777	1,086,812

(*) The Group recognised net sales amounting to TRY 19,473,691 with respect to the performance obligations satisfied at a point in time for the nine-month period ended September 30, 2018.

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**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 - SEGMENT REPORTING (Continued)

- b) Operational segments which have been prepared in accordance with the reportable segments for the nine-month period ended September 30, 2017 are as follows:

	White goods	Consumer electronics	Other	Total
Net sales	11,088,768	1,841,014	2,205,159	15,134,941
Gross profit	3,733,491	345,217	678,230	4,756,938
Depreciation and amortization	311,985	67,295	32,584	411,864
Capital expenditures	487,926	79,083	23,897	590,906

- c) Operational segments which have been prepared in accordance with the reportable segments for the three-month period between July 1 – September 30, 2018 are as follows:

	White Goods	Consumer electronics	Other	Total
Net sales (*)	6,160,704	662,684	872,623	7,696,011
Gross profit	2,038,032	164,279	308,425	2,510,736
Depreciation and amortization	147,408	25,797	15,165	188,370
Capital expenditures	397,748	40,237	13,528	451,513

- (*) The Group recognised net sales amounting to TRY 7,690,389 with respect to the performance obligations satisfied at a point in time for the three-month period between July 1- September 30, 2018.

- d) Operational segments which have been prepared in accordance with the reportable segments for the three-month period between July 1 – September 30, 2017 are as follows:

	White Goods	Consumer electronics	Other	Total
Net sales	4,096,601	676,677	666,332	5,439,610
Gross profit	1,354,248	141,044	229,331	1,724,623
Depreciation and amortization	107,233	23,002	9,859	140,094
Capital expenditures	198,253	32,558	11,445	242,256

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NOTE 3 - SEGMENT REPORTING (Continued)

e) Sales revenue grouped geographically based on the location of the customers for the nine-month periods ended September 30 are shown as below:

January 1 – September 30, 2018	Turkey	Europe	Africa	Other	Total
Total segment revenue	6,580,665	9,043,837	1,342,124	2,523,496	19,490,122

January 1 – September 30, 2017	Turkey	Europe	Africa	Other	Total
Total segment revenue	6,221,685	6,139,574	967,144	1,806,538	15,134,941

f) Sales revenue based on the location of the customers for the period between July 1 – September 30, are as below:

July 1 – September 30, 2018	Turkey	Europe	Africa	Other	Total
Total segment revenue	2,312,979	3,860,345	556,281	966,406	7,696,011

July 1 – September 30, 2017	Turkey	Europe	Africa	Other	Total
Total segment revenue	2,199,625	2,351,434	347,055	541,496	5,439,610

NOTE 4 - CASH AND CASH EQUIVALENTS

	September 30, 2018	December 31, 2017
Cash in hand	1,214	592
Cash at banks		
- demand deposits	598,135	354,745
- time deposits	3,493,909	2,026,021
Cheques and notes	70,692	111,538
Other	58,198	87,997
Cash and cash equivalents in cash flow statement	4,222,148	2,580,893
Interest income accruals	3,016	1,071
	4,225,164	2,581,964

The maturity breakdown of cash and cash equivalents is as follows:

Up to 30 days	4,092,646	2,389,520
30-90 days	132,518	192,444
	4,225,164	2,581,964

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4 - CASH AND CASH EQUIVALENTS (Continued)

As of balance sheet date effective interest rates (%) of time deposits are as follows:

	30 September, 2018	31 December, 2017
TRY	24.9	13.5
USD	3.6	1.8
EUR	0.6	0.0
AUD	0.0	-
BWP	1.0	1.0
CZK	0.0	(0.6)
CNY	1.4	1.1
INR	-	4.6
ZAR	5.3	5.3
HKD	0.3	0.3
GBP	0.7	0.4
SEK	0.0	(0.8)
CHF	(0.7)	(0.7)
EGP	9.9	11.2
NAD	5.0	5.0
NOK	0.4	0.2
PKR	5.0	4.3
RON	0.1	0.9
RUB	6.8	7.5
THB	0.7	0.7
VND	1.0	1.0
NZD	0.0	-

NOTE 5 - FINANCIAL INVESTMENTS

Fair value gain/ losses of financial assets reflected to other comprehensive income

	September 30, 2018	December 31, 2017
Fair value gain/losses of financial assets reflected to other comprehensive income (*)	2,169	-
Available-for-sale investments	-	2,552
Total	2,169	2,552

(*) Explanations on the accounting policies changes are given in Note 2.2.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 - FINANCIAL INVESTMENTS (Continued)

	<u>September 30, 2018</u>		<u>December 31, 2017</u>	
	(%)	TRY	(%)	TRY
Tat Gıda Sanayi A.Ş.	0.34	2,090	0.34	2,473
Other		79		79
		2,169		2,552

Available-for-sale investment of the Group includes shares of Tat Gıda Sanayi A.Ş., as a listed company, whose fair value is determined by using the remaining bid offer in BIST as of balance sheet date.

The unrealized loss (net) arising from the changes in the fair value of Tat Gıda Sanayi A.Ş., the available for sale investment, amounting to TRY 364 (September 30, 2017: TRY 165 unrealized loss(net)) and net of deferred tax effect amounting to TRY 19 (September 30, 2017: TRY 9) have been recognized in consolidated equity under the “Gains/ losses on financial assets measured at fair value through other comprehensive income” for the nine-month periods ended September 30, 2018.

The details of financial investments for the nine-month periods ended September 30, are as follows:

	2018	2017
As of January 1	2,552	2,735
Change in fair value	(383)	(174)
As of September 30	2,169	2,561

NOTE 6 - BORROWINGS

a) Short-term borrowings

	September 30, 2018	December 31, 2017
Short-term bank borrowings	3,065,738	2,210,542
Payables from factoring activities (*)	122,159	88,681
Other	879	474
Total short-term borrowings	3,188,776	2,299,697
Short-term portion of long-term bank borrowings and interest accruals	1,420,290	921,486
Interest accruals of long-term bond issued (**)	77,920	41,004
Total short-term portion of long-term borrowings	1,498,210	962,490

(*) Factoring liabilities are amounting to TRY 69,173 denominated in EUR (December 31, 2017: TRY 54,361), TRY 52,986 denominated in GBP (December 31, 2017: TRY 34,320) and interest rates are between 0.6 % for EUR (December 31, 2017: 0.6%) and 1.40 % for GBP (December 31, 2017: 1.12%).

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 – BORROWINGS (Continued)

(**) Long-term bonds issued:

2014:

The Company issued bond amounting to EUR 350 million, quoted in Ireland Stock Exchange, with re-offer yield 4% and annual interest payment on September 16, 2014. Maturity of the bond is September 16, 2021 and coupon rate is 3.875%.

2013:

The Company issued bond amounting to USD 500 million, quoted in Ireland Stock Exchange, with re-offer yield 5.125% and semi-annual interest payment on April 3, 2013. Maturity of the bond is April 3, 2023 and coupon rate is 5%.

As of September 30, 2018, the details of short-term bank borrowings are as follows:

Currency	Effective interest rate per annum (%)	Original currency	TRY equivalent
TL	19.7	1,958,297,556	1,958,298
PKR	6.9	10,288,192,0933	497,332
EUR	0.5	68,778,758	478,047
ZAR	8.2	250,112,740	105,446
RON	5.0	13,843,205	20,514
CNY	4.4	7,049,904	6,101
			3,065,738

As of December 31, 2017, the details of short-term bank borrowings are as follows:

Currency	Effective interest rate per annum (%)	Original currency	TRY equivalent
TRY	12.8	1,628,458,687	1,628,459
EUR	0.5	60,274,542	272,170
PKR	6.5	5,916,135,178	200,675
ZAR	8.6	310,183,326	95,124
CNY	4.4	23,908,664	13,777
SEK	0.5	569,354	260
USD	2.2	20,366	77
			2,210,542

b) Long-term borrowings

	September 30, 2018	December 31, 2017
Long-term bank borrowings	1,414,708	661,519
Long-term bonds issued	5,417,575	3,451,294
Other	3,277	1,103
	6,835,560	4,113,916

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NOTE 6 - BORROWINGS (Continued)

As of September 30, 2018, the details of the long-term bank borrowings are as follows:

Currency	Effective interest rate per annum (%)	Original currency	TRY Equivalent
TRY	20.0	2,292,752,861	2,292,753
EUR	2.6	33,559,720	233,257
ZAR	9.9	500,270,205	210,914
PKR	7.6	2,028,861,096	98,074
			2,834,998
Short-term portion of long-term loans and interest accruals			(1,420,290)
			1,414,708

As of December 31, 2017, the details of the long-term bank borrowings are as follows:

Currency	Effective interest rate per annum (%)	Original currency	TRY Equivalent
TRY	13.1	1,160,799,167	1,160,799
EUR	2.6	44,454,182	200,733
ZAR	9.9	500,000,000	153,335
PKR	6.3	2,008,803,835	68,138
			1,583,005
Short-term portion of long-term loans and interest accruals			(921,486)
			661,519

As of September 30, 2018, detail of discounted amounts of long-term bonds issued is given below:

Currency	Effective interest rate per annum (%)	Original currency	TRY Equivalent
USD	5.1	511,330,568	3,062,972
EUR	4.0	349,977,965	2,432,523
			5,495,495
Interest accruals of long-term bonds issued			(77,920)
			5,417,575

As of December 31, 2017, detail of discounted amounts of long-term bonds issued is given below:

Currency	Effective interest rate per annum (%)	Original Currency	TRY equivalent
USD	5.1	504,201,724	1,901,799
EUR	4.0	352,231,061	1,590,499
			3,492,298
Interest accruals of long-term bonds issued			(41,004)
			3,451,294

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NOTE 6 - BORROWINGS (Continued)

The payment schedule of the principal amounts of long-term bank borrowings and bonds is as follows:

	September 30, 2018	December 31, 2017
2019	77,228	440,344
2020	1,337,480	221,175
2021	2,432,675	1,580,425
2023	2,995,100	1,885,950
	6,842,483	4,127,894

The analysis of borrowings and bonds issued in terms of periods remaining to contractual re-pricing dates is as follows:

	September 30, 2018	December 31, 2017
Up to 3 months	1,237,279	1,730,745
3 - 12 months	3,312,248	1,482,809
1-5 years	6,631,682	2,088,609
Over 5 years	-	1,885,950
	11,181,209	7,188,113

Net financial debt reconciliation

As of September 30, 2018, and December 31, 2017, the net financial debt reconciliation is as follows:

	September 30, 2018	December 31, 2017
Cash and cash equivalents	4,225,164	2,581,964
Borrowings and bill of exchange – repayable within one year	(4,686,986)	(3,262,187)
Borrowings and bill of exchange – repayable after one year	(6,835,560)	(4,113,916)
Net debt	(7,297,382)	(4,794,139)
Cash and cash equivalents	4,225,164	2,581,964
Borrowings and bill of exchange - fixed interest rates	(10,570,290)	(6,800,998)
Borrowings and bill of exchange – floating interest rate	(952,256)	(575,105)
Net debt	(7,297,382)	(4,794,139)

	Borrowings and bonds issued due within 1 year	Borrowings and bonds issued due after 1 year	Total
2018			
Financial debt as of January 1	(3,262,187)	(4,113,916)	(7,376,103)
Cash flows	(1,277,745)	(1,044,327)	(2,322,072)
Changes in interest accruals	(112,408)	-	(112,408)
Changes in factoring liabilities	(33,478)	-	(33,478)
Currency translation adjustments	(1,168)	(1,677,317)	(1,678,485)
Financial debt as of September 30	(4,686,986)	(6,835,560)	(11,522,546)

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 7 - DERIVATIVE INSTRUMENTS

Valuation of outstanding derivative instruments which were transacted by the Group for foreign exchange risk management purposes are made through marketing to market value at the date of valuation and the fair value of these instruments are disclosed as asset or liability in the statement of financial position.

	September 30, 2018			December 31, 2017		
	Contract amount	Fair value assets /(liabilities)		Contract amount	Fair value assets /(liabilities)	
<i>Held for trading:</i>						
<i>Short-term derivative instruments</i>						
Forward transactions	3,580,484	62,048	(7,358)	1,539,368	2,607	(10,007)
Foreign currency swap contracts	6,147,809	8,197	(71,274)	2,868,887	6,526	(3,881)
	9,728,293	70,245	(78,632)	4,408,255	9,133	(13,888)

Long-term derivative instruments

Cross-currency fixed interest rate swap (*)	4,111,797	113,588	-	2,596,351	38,249	-
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(*) In order to mitigate foreign exchange risk and to naturally hedge principal and interest payments of the long-term bond issued in 2013 in US Dollars against the major foreign currencies that sales and collections are performed in, the Company entered into cross currency fixed interest rate swap amounting to EUR 202,8 million with 4.65% interest rate in return for USD 270 million and amounting to GBP 57,5 million with 5% interest rate in return for USD 90 million in April 2013.

NOTE 8 - TRADE RECEIVABLES AND PAYABLES

	September 30, 2018	December 31, 2017
Short-term trade receivables:		
Trade receivables	7,540,501	4,871,934
Notes receivables	1,736,047	1,545,334
Cheques receivables	394,108	273,545
Short-term trade receivables (gross)	9,670,656	6,690,813
Provision for doubtful receivables	(205,462)	(167,090)
Unearned credit finance income	(72,351)	(19,714)
Short-term trade receivables (net)	9,392,843	6,504,009

As of September 30, 2018, the Group has offsetted TRY 1,149,168 (December 31, 2017: TRY 833,682) from trade receivables that are collected from factoring companies as part of the irrevocable factoring.

In line with the general financial market convention in Pakistan, Dawlance has hypothecation on its trade receivables amounting to TRY 60,236 related with its local bank borrowings (December 31, 2017: TRY 18,483).

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**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

The movements of provision for doubtful receivables for the nine-month periods ended September 30, are as follows:

	2018	2017
As of January, 1 - calculated under IAS 39	167,090	137,168
Impact due to the changes in TFRS 9 (Note 2.1)	3,941	-
As of January, 1 – restated	171,031	137,168
Current year additions (Note 21)	19,372	4,248
Provisions no longer required (Note 21)	(3,291)	(1,067)
Write-offs (*)	(12,671)	(4,740)
Currency translation differences	31,021	4,690
As of September 30	205,462	140,299

(*) Doubtful receivables, for which no possibility of collection is foreseen and no further cash inflow are expected, are written off from the records along with the related provisions.

	September 30, 2018	December 31, 2017
Long-term trade receivables	43,284	12,429
	September 30, 2018	December 31, 2017
Short-term trade payables:		
Trade payables	4,934,779	2,845,593
Debt accruals	424,527	216,562
Unearned credit finance charges	(84,955)	(37,535)
	5,274,351	3,024,620

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 9 - INVENTORIES

	September 30, 2018	December 31, 2017
Raw materials and supplies	2,407,785	1,460,439
Work in progress	165,977	122,335
Finished goods	2,773,185	1,778,062
Trade goods	956,290	504,068
Inventories (gross)	6,303,237	3,864,904
Provision for impairment on inventories	(101,907)	(84,976)
Inventories (net)	6,201,330	3,779,928

In line with the general financial market convention in Pakistan, Dawlance has hypothecation on its inventories amounting to TRY 138,810 related with its local bank borrowings (December 31, 2017: TRY 37,727).

Allocation of the provision for impairment on inventories in terms of inventory type is as follows:

	September 30, 2018	December 31, 2017
Raw materials and supplies	68,643	58,060
Finished goods	26,403	21,587
Trade goods	6,861	5,329
	101,907	84,976

Movements of provision for impairment on inventories for the periods ended September 30 are as follows:

	2018	2017
As of January 1	84,976	92,668
Current year additions (Note 21)	10,264	4,308
Realized due to sales of inventory	(7,213)	(20,749)
Currency translation differences	13,880	1,360
As of September 30	101,907	77,587

NOTE 10 - OTHER PAYABLES

	September 30, 2018	December 31, 2017
Taxes and duties payable	319,246	162,273
Dividend payables to shareholders	24,971	6,141
Deposits and guarantees received	4,383	5,272
Other	53,192	68,969
	401,792	242,655

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2018

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NOTE 11 – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	September 30, 2018		December 31, 2017	
	%	TRY	%	TRY
Koç Finansman	47.0	155,239	47.0	132,227
Arçelik - LG	45.0	123,914	45.0	116,480
VoltBek	49.0	90,756	49.0	16,496
Ram Dış Ticaret	33.5	4,963	33.5	11,055
Tanı Pazarlama	32.0	3,615	32.0	6,003
		378,487		282,261

The movements of associates and joint venture for the nine-month periods ended September 30, are as follows:

	2018	2017
As of January 1	282,261	236,090
Shares of income/loss of investments	15,481	37,244
Shares of other comprehensive income/loss of investments	10,179	(274)
Gross profit elimination on inventory	11,484	504
Dividends received	(26,170)	(13,085)
Share participation in joint venture	57,237	-
Currency translation difference	28,015	-
As of September 30	378,487	260,479

Shares of income/loss from associates and joint venture:

	January 1- September 30, 2018	January 1- September 30, 2017	July 1- September 30, 2018	July 1- September 30, 2017
Koç Finansman	31,384	27,382	9,660	10,391
Ram Dış Ticaret	1,300	4,041	301	1,548
Tanı Pazarlama	(2,388)	(1,250)	(190)	(367)
Arçelik – LG	(3,825)	7,071	(18,587)	(143)
VoltBek	(10,990)	-	(9,981)	-
	15,481	37,244	(18,797)	11,429

Aggregated summary figures of the financial statements of associates and joint venture:

	September 30, 2018		December 31, 2017	
Total assets	6,374,293		5,102,179	
Total liabilities	5,557,305		4,476,576	
	January 1- September 30, 2018	January 1- September 30, 2017	July 1- September 30, 2018	July 1- September 30, 2017
Net sales	2,684,023	2,066,541	933,099	747,343
Net income for the period	57,784	83,249	(20,187)	33,066

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NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

	2018	2017
As of January 1		
Cost	7,150,246	6,231,747
Accumulated depreciation	(3,885,475)	(3,469,448)
Net carrying value	3,264,771	2,762,299
Net carrying value at the beginning of the period		
Additions	854,629	401,052
Transfers ^(*)	(42,893)	-
Disposals	(5,294)	(14,204)
Currency translation differences	762,347	77,630
Depreciation for the period	(365,153)	(289,722)
Net carrying value at the end of the period	4,468,407	2,937,055
As of September 30		
Cost	9,121,312	6,676,628
Accumulated depreciation	(4,652,905)	(3,739,573)
Net carrying value	4,468,407	2,937,055

^(*) Consists of transfers amounting to TRY 42,893 from property, plant and equipment to other intangible assets (Note 13).

There is no mortgage on property, plant and equipment as of September 30, 2018 (December 31, 2017: None).

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NOTE 13 – OTHER INTANGIBLE ASSET

	2018	2017
As of January 1		
Cost	2,944,381	2,542,024
Accumulated amortization	(804,043)	(631,516)
Net carrying value	2,140,338	1,910,508
Net carrying value at the beginning of the period	2,140,338	1,910,508
Additions	232,183	189,854
Transfers ^(*)	42,893	-
Disposals	(401)	(659)
Currency translation differences	640,475	51,977
Amortization for the period	(140,175)	(122,142)
Net carrying value at the end of the period	2,915,313	2,029,538
As of September 30		
Cost	3,906,820	2,788,531
Accumulated amortization	(991,507)	(758,993)
Net carrying value	2,915,313	2,029,538

^(*) Consists of transfers from property, plant and equipment.

Net carrying value of the development costs as of September 30, 2018 is TRY 647,846 (December 31, 2017: TRY 544,522) and capitalized development costs excluding amount of borrowing cost in the period is TRY 193,814 (January 1 – September 30, 2017: TRY 161,911).

As of September 30 2018 total amount of borrowing costs capitalized in the period is none (January 1-September 30, 2017: None).

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 14 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

As of September 30, 2018, export commitments from Turkey under the scope of inward processing authorization certificates as export incentives amounts to full USD 477,508,335 (December 31, 2017: USD 301,896,261). In case that the related tax advantages are not utilized, it is possible to close of the certificates including export commitments without any sanctions.

Future minimum rentals payable under non-cancellable operating lease are as follows:

	September 30, 2018	December 31, 2017
Up to 1 year	87,110	57,426
1-5 years	196,531	139,473
Over 5 years	136,759	90,202
Operating lease commitments	420,400	287,101

Derivative instruments contracts commitments

TRY equivalents of the Group’s foreign exchange purchase and sales commitments in terms of currencies as of September 30, 2018 and December 31, 2017 are as follows:

September 30, 2018	Purchase Commitments	Sales Commitments
TRY	1,423,556	1,391,519
USD	3,205,633	747,577
EUR	1,773,287	2,518,921
AUD	44,499	213,352
CZK	-	71,518
CNY	66,939	475,954
DKK	-	74,454
ZAR	-	152,516
GBP	-	833,333
SEK	55,761	-
CHF	73,556	-
CAD	-	12,638
MYR	-	16,133
NOK	75,085	20,979
PKR	-	2,014
PLN	-	146,106
ROL	143,334	80,465
RUB	13,488	61,175
THB	93,646	-
NZD	-	52,652
	6,968,784	6,871,306

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 14 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES (Continued)

December 31, 2017	Purchase Commitments	Sales Commitments
TRY	138,257	565,523
USD	1,981,535	61,536
EUR	1,004,308	1,374,024
AUD	26,446	151,595
CZK	-	51,307
CNY	43,219	224,726
DKK	-	36,331
ZAR	-	92,961
GBP	-	503,539
SEK	31,696	-
CHF	130,967	-
CAD	-	5,255
MYR	-	24,756
NOK	36,577	-
PKR	-	1,828
PLN	-	139,810
ROL	125,833	12,582
RUB	31,534	42,946
THB	22,313	112,638
NZD	-	30,564
	3,572,685	3,431,921

	September 30, 2018	December 31, 2017
Collaterals obtained	3,648,420	2,911,732

Collaterals/ pledges/ mortgages/bill of guarantees (“CPMB”) position of the Group as of September 30, 2018 and December 31, 2017 are as follows:

CPMB’s given by the Company	September 30, 2018	December 31, 2017
A. CPMB’s given for Company’s own legal personality	232,654	623,454
B. CPMB’s given on behalf of fully consolidated companies	1,529	993
C. CPMB’s given on behalf of third parties for ordinary course of business	-	-
D. Total amount of other CPMB’s	-	-
i) Total amount of CPMB’s given on behalf of the majority shareholder	-	-
ii) Total amount of CPMB’s given on behalf of other Group companies which are not in scope of B and C	-	-
iii) Total amount of CPMB’s given on behalf of third parties which are not in scope of C	-	-
Total	234,183	624,447

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NOTE 14 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES (Continued)

TRY equivalents of CPMB given as of September 30, 2018 and December 31, 2017 are as follows on original currency basis are as follows:

CPMB's given by the Company	September 30, 2018	December 31, 2017
USD	120,071	532,667
TRY	62,791	59,250
EUR	23,036	14,814
Other currencies	28,285	17,716
	234,183	624,447

NOTE 15 – OTHER PROVISIONS

	September 30, 2018	December 31, 2017
Other short-term provisions		
Warranty provision	349,851	215,208
Assembly provision	110,243	98,210
Provision for transportation cost	54,191	49,303
Provision for returns	17,526	10,242
Provision for lawsuit risks	12,944	9,596
Other	110,244	48,071
	654,999	430,630
Other long-term provisions		
Warranty provision	244,523	232,137
Other	528	26
	245,051	232,163

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**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 16 – PREPAID EXPENSES

	September 30, 2018	December 31, 2017
Short-term prepaid expenses	181,158	91,686
Advances given for inventories	33,967	15,000
	215,125	106,686

NOTE 17 – CURRENT INCOME TAX ASSETS

	September 30, 2018	December 31, 2017
Prepaid taxes and funds	146,624	106,532
	146,624	106,532

NOTE 18 – EMPLOYEE BENEFIT OBLIGATIONS

	September 30, 2018	December 31, 2017
Payables to personnel	135,373	195,859
Social security payables	131,229	104,492
Accruals for bonuses and premiums	105,624	23,164
	372,226	323,515

NOTE 19 - OTHER ASSETS AND LIABILITIES

	September 30, 2018	December 31, 2017
Other current assets:		
Value added tax and private consumption tax receivable	442,367	291,663
Taxes and funds deductible	72,375	62,911
Income accruals	5,883	7,645
Other	84,059	36,619
	604,684	398,838
Other current liabilities:		
Accruals for customer premiums	767,895	431,528
Advances received	63,574	66,448
Other	51,752	8,836
	883,221	506,812

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NOTE 20 - EQUITY

Paid-in capital

The Company adopted the registered share capital system available to companies registered to the CMB and set a limit on its registered share capital representing registered type shares with a nominal value of kurus1. Registered and issued share capital of the Company is as follows:

	September 30, 2018	December 31, 2017
Limit on registered share capital	1,500,000	1,500,000
Issued share capital in nominal value	675,728	675,728

Companies in Turkey may exceed the limit on registered share capital in the event of the issuance of bonus shares to existing shareholders.

The shareholding structure of the Company is as follows:

	September 30, 2018		December 31, 2017	
	Share (%)	Amount	Share (%)	Amount
Shareholders				
Koç Holding A.Ş.	40.51	273,742	40.51	273,742
Temel Ticaret ve Yatırım A.Ş.	2.75	18,577	2.75	18,577
Koç Family Members	8.67	58,590	8.67	58,590
Total Koç Family members and companies owned by Koç Family members	51.93	350,909	51.93	350,909
Teknosan Büro Makine ve Levazımı Ticaret ve Sanayi A.Ş.	12.05	81,428	12.05	81,428
Burla Ticaret ve Yatırım A.Ş.	5.56	37,572	5.56	37,572
Koç Holding Emekli ve Yardım Sandığı Vakfı	5.14	34,722	5.14	34,722
Vehbi Koç Vakfı	0.17	1,137	0.17	1,137
Other	25.15	169,960	25.15	169,960
Paid-in capital	100.00	675,728	100.00	675,728
Adjustment to share capital (*)		468,811		468,811
Total share capital		1,144,539		1,144,539

(*) “Adjustment to share capital” represents the restatement effect of cash and cash equivalent contributions to share capital measured in accordance with the TAS/IFRS promulgated by the POA, “Adjustment to share capital” has no use other than being transferred to paid-in share capital.

All shareholders of the Company have equal rights and there are no preference shares outstanding.

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NOTE 20 – EQUITY (Continued)

Contribution to equity related to the merger

Contribution to equity related to the merger with Grundig Elektronik A.Ş. at June 30, 2009.

Restricted reserves

The Turkish Commercial Code (“TCC”) stipulates that the general 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. Other legal reserve is appropriated out of 10% of the distributable income after 5% dividend is paid to shareholders. Under the TCC, general legal reserves can only be used for compensating losses, continuing operations in severe conditions or preventing unemployment and taking actions for relieving its effects in case general legal reserves does not exceed half of paid-in capital or issued capital.

The details of these restricted reserves are as follows:

	September 30, 2018	December 31, 2017
General legal reserves	83,690	83,690
Other legal reserves	325,425	285,303
	409,115	368,993

Dividends paid

As agreed in the ordinary general meeting dated March 19, 2018, the decision to pay dividend as cash has been taken and the payment was made in March 2018 (previous year in April 2017). The dividend details are as follows: 64.375% (2017: 62.9%) corresponding to gross TRY 0.64375 (full) (2017:TRY 0.62895 (full)) (net amount being equal to gross amount) per share of TRY 1.00 (full) nominal value to the institutional shareholders who are full taxpayers and to the limited liable taxpayers who obtain dividends through a business or permanent representative in Turkey; 64.375% (2017: 62.9%) corresponding to gross TRY 0.64375 (full) (2017: gross TRY 0.62895 (full)) and net TRY 0.54719 (full) (2017: net TRY 0.53461 (full)) per share of TRY 1.00 (full) nominal value to the other shareholders.

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NOTE 21 - OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

	January 1- September 30, 2018	January 1- September 30, 2017	July 1- September 30, 2018	July 1- September 30, 2017
Other income from operating activities:				
Foreign exchange gains arising from trading activities	1,620,781	304,858	1,062,410	109,856
Credit finance income arising from trading activities	70,322	41,507	40,398	28,799
Income from claims and grants	46,950	45,005	19,615	14,252
Reversal of provisions for doubtful receivables (Note 8)	3,291	1,067	1,461	134
Other	59,955	33,337	9,280	2,442
	1,801,299	425,774	1,133,164	155,483
Other expenses from operating activities:				
Foreign exchange losses arising from trading activities	(498,135)	(147,381)	(292,570)	(33,828)
Credit finance charges arising from trading activities	(51,120)	(8,762)	(9,493)	2,999
Cash discounts expenses	(36,683)	(28,856)	(18,310)	(11,022)
Provision expense for doubtful receivables (Note 8)	(19,372)	(4,248)	(5,268)	(1,100)
Provision expense for inventory impairment (Note 9)	(10,264)	(4,308)	(4,167)	(758)
Other	(41,262)	(36,896)	(16,050)	(13,352)
	(656,836)	(230,451)	(345,858)	(57,061)

NOTE 22 – INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

	January 1- September 30, 2018	January 1- September 30, 2017	July 1- September 30, 2018	July 1- September 30, 2017
Income from investment activities:				
Income from sales of property plant and equipment	8,110	7,188	1,457	5,071
Dividends received from financial investments	94	93	-	-
	8,204	7,281	1,457	5,071
Expenses from investment activities:				
Loss from sales of property plant and equipment	(3,896)	(5,254)	(150)	(3,159)
	(3,896)	(5,254)	(150)	(3,159)

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NOTE 23- FINANCIAL INCOME

	January 1- September 30, 2018	January 1- September 30, 2017	July 1- September 30, 2018	July 1- September 30, 2017
Foreign exchange gains (*)	1,690,793	453,949	1,033,113	127,736
Gains on derivative instruments	768,633	126,059	546,013	55,193
Interest income	37,979	24,450	19,767	9,481
Other	171	458	110	(86)
	2,497,576	604,916	1,599,003	192,324

(*) Foreign exchange gains are related to cash and cash equivalents, financial borrowings and other financial liabilities.

NOTE 24 - FINANCIAL EXPENSES

	January 1- September 30, 2018	January 1- September 30, 2017	July 1- September 30, 2018	July 1- September 30, 2017
Foreign exchange losses (*)	(3,107,522)	(543,954)	(2,060,391)	(194,181)
Interest expenses	(696,934)	(414,800)	(295,347)	(154,144)
Losses on derivative instruments	(519,427)	(252,277)	(273,595)	(100,170)
Other	(9,401)	(7,293)	(4,000)	(2,145)
	(4,333,284)	(1,218,324)	(2,633,333)	(450,640)

(*) Foreign exchange losses are related to cash and cash equivalents, financial borrowings and other liabilities.

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NOTE 25 - TAX ASSETS AND LIABILITIES

	September 30, 2018	December 31, 2017
Corporation and income taxes	131,450	121,925
Prepaid tax	(91,060)	(93,872)
Tax liabilities (net)	40,390	28,053
Deferred tax assets	851,662	648,007
Deferred tax liabilities	(620,574)	(439,909)
Deferred tax assets, net	231,088	208,098

Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, tax liabilities, as reflected in these consolidated financial statements, have been calculated on a separate-entity basis.

The corporation tax rate is 22% in Turkey (December 31, 2017: 20%). Corporation tax rate is applied to net income of the companies after adjusting for certain disallowable expenses, exempt income and allowances.

Income tax expense for the nine-month periods ended September 30 is as follows:

	January 1- September 30, 2018	January 1- September 30, 2017	July 1- September 30, 2018	July 1- September 30, 2017
Tax (expense)/income				
- Current period tax expense	(204,262)	(138,999)	(122,949)	(36,077)
- Deferred tax income	100,086	185,637	43,862	35,168
Total tax (expense)/income, net	(104,176)	46,638	(79,087)	(909)

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between their statement of financial position accounts prepared in accordance with TAS/IFRS promulgated by POA Financial Reporting Standards and their statutory financial statements. These temporary differences usually result from the recognition of revenue and expenses in different reporting periods for TAS/IFRS and Tax Laws.

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017, "Bazı Vergi Kanunları İle Diğer Bazı Kanunlarda Değişiklik Yapılmasına Dair Kanun", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

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NOTE 25 - TAX ASSETS AND LIABILITIES (Continued)

The breakdown of cumulative temporary differences and the resulting deferred tax assets/liabilities provided using principal tax rates is as follows:

	Cumulative temporary differences		Deferred tax assets/ (liabilities)	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Property, plant and equipment and intangible assets	3,595,338	2,762,388	(894,602)	(685,411)
Unearned credit finance income/expense (net)	133,710	58,370	(29,416)	(12,841)
Derivative instruments	104,861	38,158	(23,037)	(8,422)
Fair value gain/losses of financial assets reflected to other comprehensive income	1,733	2,116	(87)	(106)
Unused tax advantages (*)	-	-	599,669	588,183
Provision for doubtful receivables	(48,168)	(22,818)	12,536	5,932
Provision for impairment on inventories	(81,247)	(69,609)	17,674	14,822
Provision for employment termination benefits	(254,475)	(208,146)	51,027	41,639
Unused tax credits	(623,388)	(232,098)	166,576	66,312
Provision for warranty, assembly and transportation expenses	(672,194)	(404,231)	147,049	90,683
Other	(679,673)	(436,188)	183,699	107,307
Deferred tax assets, net			231,088	208,098

(*) Gains arising from investments under incentive certificate are subject to corporate income tax at reduced rates being effective from the financial year which the investment starts to be operated partially or entirely till the period that investment reaches the contribution amount. In this context, as of September 30, 2018 the tax advantage of TRY 599,669 (December 31, 2017: TRY 588,183) from which the Company predicts to benefit in the foreseeable future is recognized as deferred tax asset in the condensed interim consolidated financial statements.

Movements in deferred tax asset / (liabilities) for the nine-month periods ended September 30 are as follows:

	2018	2017
Balance as of January 1– reported	208,098	14,155
Impact due to the changes in accounting policies	30,760	-
Balance as of January 1– restated	238,858	14,155
Deferred tax income recognized in statement of profit or loss	100,086	185,637
Deferred tax income recognized directly in the equity	12,767	2,677
Currency translation differences	(120,623)	(5,512)
Balance as of September 30	231,088	196,957

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NOTE 26 - EARNINGS PER SHARE

Earnings per share disclosed in the consolidated statements of income are determined by dividing the net income per share by the weighted average number of shares that have been outstanding during the year.

The Companies can increase their share capital by making a pro-rata distribution of shares (“bonus shares”) to existing shareholders from retained earnings. In earnings per share calculation, this bonus share issuance is accepted as shares issued. Hence, weighted average stock share, which is used in the calculation of earnings per share, is acquired by retrospective application of bonus share issue.

Earnings per share and dividends paid in terms of share groups are as follows:

	January 1- September 30, 2018	January 1- September 30, 2017	July 1- September 30, 2018	July 1- September 30, 2017
Profit for the year attributable to shareholders of the Company	571,922	753,065	251,242	256,230
Weighted average number of ordinary shares with nominal value (kurus 1 each one)	67,572,820,500	67,572,820,500	67,572,820,500	67,572,820,500
Earnings per share (kurus) (*)	0.846	1.114	0.372	0.379
Diluted earnings per share (kurus) (*)	0.846	1.114	0.372	0.379

(*) The earnings and dividends paid per diluted and basic shares do not differ since the shareholders have equal rights on the shares and there is no preferred share.

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NOTE 27 - RELATED PARTY DISCLOSURES

(i) Balances with related parties

	September 30, 2018	December 31, 2017
(a) Due from related parties		
Koçtaş Yapı Marketleri Ticaret A.Ş. ⁽¹⁾	17,920	4,466
Yapı ve Kredi Bankası A.Ş. ⁽¹⁾	2,131	4,209
Other	1,346	4,934
	21,397	13,609
(b) Due to related parties		
<i>Current</i>		
Arçelik-LG ⁽²⁾	331,020	256,126
Zer Merkezi Hizmetler ve Ticaret A.Ş. ⁽¹⁾	285,104	153,813
Ram Dış Ticaret A.Ş. ⁽²⁾	119,021	63,685
Bilkom Bilişim Hizmetleri A.Ş. ⁽¹⁾	9,873	2,354
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. ⁽¹⁾	8,737	21,658
Koç Holding A.Ş. ⁽³⁾	6,093	21,646
Otokoç Otomotiv Tic, ve San, A.Ş. ⁽¹⁾	4,213	4,243
Other	6,365	27,423
	770,426	550,948

⁽¹⁾ Koç Holding group companies

⁽²⁾ Associates

⁽³⁾ Parent company

	September 30, 2018	December 31, 2017
Other payables to related parties - Current		
Zer Merkezi Hizmetler ve Ticaret A.Ş. ^(*)	30,923	19,267
Other	623	445
	31,546	19,712
Other payables to related parties - Non-Current		
Zer Merkezi Hizmetler ve Ticaret A.Ş. ^(*)	39,270	39,357
Other	623	889
	39,893	40,246

^(*) The Company has a contract regarding the right to use Beko brand and undertaking the marketing, sales and distribution activities of Beko brand products between the Company and Zer Merkezi Hizmetler ve Ticaret A.Ş. (prior title was Beko Ticaret A.Ş.) for 20 years beginning on 2001. Due to the fact that the rights to use Beko brand will be held by the Company upon the expiration of the contract period, Beko brand has been recognized under intangible assets in the consolidated financial statements of the Group. Net book value of Beko brand, which is held under other liabilities to related parties, amounts to TRY 81,040 as of September 30, 2018, (December 31, 2017: TRY 81,040).

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

Maturity breakdown of gross future minimum payables of other payables to related parties is as follows:

	September 30, 2018	December 31, 2017
Other payables to related parties (gross)		
Up to 1 year	32,367	20,436
1 to 5 years	40,306	40,872
	72,673	61,308
Future finance charges on other liabilities	(1,234)	(1,350)
Present value of other payables to related parties (net)	71,439	59,958

Maturity analysis of the present value of other payables to related parties is as follows:

	September 30, 2018	December 31, 2017
Up to 1 year	31,546	19,712
1 to 5 years	39,893	40,246
	71,439	59,958

(c) Deposits

Yapı ve Kredi Bankası A.Ş. and its subsidiaries ⁽¹⁾	870,913	246,664
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(d) Bank borrowings

Yapı ve Kredi Bankası A.Ş. and its subsidiaries	-	18,773
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⁽¹⁾ Koç Holding group companies

(e) Derivative instruments

	Contract amount	Fair value assets/(liabilities)	
September 30, 2018			
Yapı ve Kredi Bankası A.Ş. and its subsidiaries	1,134,744	17,518	(2,832)
December 31, 2017			
Yapı ve Kredi Bankası A.Ş. and its subsidiaries	377,713	158	(401)

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NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

(ii) Transactions with related parties

	January 1- September 30, 2018	January 1- September 30, 2017	July 1- September 30, 2018	July 1- September 30, 2017
(a) Sales of goods and services:				
Koçtaş Yapı Marketleri Ticaret A.Ş. ⁽¹⁾	25,336	20,806	10,829	7,925
Yapı ve Kredi Bankası A.Ş.	10,915	12,148	1,384	4,658
Zer Merkezi Hizmetler ve Ticaret A.Ş.	3,414	2,483	904	1,276
Other	4,930	9,596	2,196	2,986
	44,595	45,033	15,313	16,845

	January 1- September 30, 2018	January 1- September 30, 2017	July 1- September 30, 2018	July 1- September 30, 2017
(b) Purchases of goods and services:				
Zer Merkezi Hizmetler ve Ticaret A.Ş.	831,304	663,734	417,739	266,178
Arçelik-LG	747,356	558,636	203,379	282,043
Ram Dış Ticaret	274,321	131,484	114,393	49,090
Ark İnşaat	113,573	21,231	33,403	20,132
Bilkom Bilişim Hizmetleri A.Ş.	112,216	105,651	112,216	35,899
Koç Sistem Bilgi ve İletişim Hiz, A.Ş.	53,068	46,785	18,122	22,633
Other	135,408	115,115	71,971	25,062
	2,267,246	1,642,636	971,223	701,037

The Group purchases direct and indirect materials and receives service from Zer Merkezi Hizmetler A.Ş. The average payment term is around sixty days.

The Group purchases air conditioners produced by Arçelik-LG. Purchasing conditions are determined in line with sales conditions.

⁽¹⁾ Koç Holding group companies

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 27 - RELATED PARTY DISCLOSURES (Continued)

(c) Key management compensation:

Total compensation provided to members of the Board of Directors, General Manager, Assistant General Managers and Directors directly reporting to General Manager by the Company during the nine-month period ended September 30, 2018 amounts to TRY 12,893 (January 1-September 30, 2017: TRY 12,734). Compensation includes only short-term benefits. There is no redundancy payments made to the senior executives as of September 30, 2018 (January 1-September 30, 2017: TRY 2,034).

(d) Other transactions:

	January 1- September 30, 2018	January 1- September 30, 2017	July 1- September 30, 2018	July 1- September 30, 2017
<i>Interest income:</i>				
Yapı ve Kredi Bankası A.Ş. and its subsidiaries	16,444	15,976	8,159	6,518
<i>Interest expense:</i>				
Yapı ve Kredi Bankası A.Ş. and its subsidiaries	5,840	1,976	-	458

NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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 program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.

Hedging operations and derivative instruments

Liquidity Risk

The risk of failure in settling financial liabilities is eliminated by managing the balance sheet and expected cash flows in harmony. In this context; the maturities of the financial liabilities are kept in line with the maturities of assets to eliminate any duration mismatch and to maintain short term liquidity, net working capital objectives are set and balance sheet ratios are aimed to be kept at particular levels.

Cash flow estimations for midterm and long-term liquidity management of the Group are made by taking into account financial market and sector dynamics and cash flow cycle is observed and is tested by various scenarios.

ARÇELİK ANONİM ŞİRKETİ

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

(Continued)

Interest Rate Risk

Changes in interest rates create significant risks over financial results with due to the impact on interest sensitive assets and liabilities. These exposures are managed with inter balance sheet methods by maintaining a balance in terms of amount and maturity between interest rate sensitive assets and liabilities and using derivative instruments when considered necessary.

In this context, matching of not only maturities of receivables and payables but also contractual re-pricing dates is crucial. In order to minimize the exposures to interest rate volatility, contractual re-pricing date of financial liabilities and receivables and “fixed interest/ floating interest”, “short-term/ long-term” balance within liabilities are structured coherently.

Funding risk

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

Credit risk

The Group is exposed to credit risk arising from receivables from credit financed sales and deposits with banks.

Credit risk of receivables from third parties is managed by securing receivables with collaterals covering receivables at the highest possible proportion. Methods used are as follows:

- Bank guarantees (guarantee letters, letter of credits etc.),
- Credit insurance (Global insurance policies, Eximbank and factoring insurance etc.),
- Mortgages,
- Cheques-notes negotiated.

In credit risk control, for the customers which are not secured with collaterals, the credit quality of the customer is assessed by taking into account its financial position, past experience and other factors. Individual risk limits are set in accordance and the utilization of credit limits is regularly monitored.

For banks, the ratings of the independent rating institutions are taken into consideration.

Same credit risk management principles are used for the management of the financial assets. Investments are made to instruments with highest liquidity and credit note of the company of transaction is taken into consideration.

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2018

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NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Details of credit and receivable risk as of September 30, 2018 and December 31, 2017 are as follows:

September 30, 2018	Trade receivables		Bank deposits	Derivative instruments
	Related parties	Third parties		
Maximum exposed credit risk as of reporting date ⁽¹⁾	21,397	9,436,127	4,095,060	183,833
Secured portion of the maximum credit risk by guarantees, etc. ⁽²⁾	-	(7,714,714)	-	-
A. Net book value of financial asset either are not due or not impaired	21,397	8,787,455	4,095,060	183,833
-Secured portion by guarantees, etc.	-	(7,182,162)	-	-
B. Net book value of overdue but not impaired financial assets	-	612,928	-	-
- Secured portion by guarantees, etc.	-	(492,793)	-	-
C. Net book value of the impaired assets	-	39,759	-	-
- Overdue (Gross book value)	-	241,206	-	-
- Impairment (-)	-	(201,447)	-	-
- Secured portion of the net value by guarantees, etc.	-	(39,759)	-	-
D. Expected credit losses (-)	-	(4,015)	-	-

December 31, 2017	Trade receivables		Bank deposits	Derivative instruments
	Related parties	Third parties		
Maximum exposed credit risk as of reporting date ⁽¹⁾	13,609	6,516,438	2,381,837	47,382
Secured portion of the maximum credit risk by guarantees, etc. ⁽²⁾	-	(5,218,549)	-	-
A. Net book value of financial asset either are not due or not impaired	13,609	5,970,709	2,381,837	47,382
-Secured portion by guarantees, etc.	-	(4,796,631)	-	-
B. Net book value of overdue but not impaired financial assets	-	500,799	-	-
- Secured portion by guarantees, etc.	-	(376,988)	-	-
C. Net book value of the impaired assets	-	44,930	-	-
- Overdue (Gross book value)	-	212,020	-	-
- Impairment (-)	-	(167,090)	-	-
- Secured portion of the net value by guarantees, etc.	-	(44,930)	-	-

(1) Amounts showing the maximum credit risk exposed as of reporting date by excluding guarantees in hand and other factors that increase the credit quality.

(2) Major part of guarantees is composed of mortgages and trade receivable insurances.

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT
(Continued)

a) Credit quality of financial assets which are not overdue and not impaired

	September 30, 2018	December 31, 2017
Group 1	37,330	11,628
Group 2	8,398,143	5,758,507
Group 3	373,379	214,183
	8,808,852	5,984,318

Group 1 - New customers (customers for a period less than 3 months).

Group 2 - Existing customers with no collection delay in the past (customers for a period of more than 3 months).

Group 3 - Existing customers with some collection delays in the past of which were fully recovered.

b) Aging analysis of the receivables which are overdue but not impaired

	September 30, 2018	December 31, 2017
0-1 month	365,171	292,347
1-3 months	58,099	100,657
3-12 months	146,484	79,743
1-5 years	43,174	28,052
	612,928	500,799

Foreign exchange risk

Since the Group operates in a diverse geographical area, operations are performed using multiple currencies. Therefore, foreign exchange risk is one of the most significant financial risks that the Group is exposed to.

Trade relations between the Company and its subsidiaries are structured within the framework of relevant legislations and managed centrally by subsidiaries’ functional currencies. Thus, foreign currency risk born by the subsidiaries is minimized.

Foreign exchange risk is followed based on functional currency of each subsidiary. It is aimed to set the ratio of foreign exchange risk position over equity at a predetermined interval.

The main principle of foreign currency risk management is to minimize the impact of foreign exchange fluctuations by maintaining foreign exchange asset position close to zero.

Inter balance sheet methods are preferred for the management of foreign currency risk as in other risk items. However, when necessary, derivative instruments are also used for maintaining foreign currency position at a predetermined level.

ARÇELİK ANONİM ŞİRKETİ

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT
(Continued)

Foreign currency hedge of net investments in foreign operations

The Group designated some portion of the Euro dominated bonds issued as a hedging instrument in order to hedge the foreign currency risk arisen from the translation of net assets of part of the subsidiaries operating in Europe from Euro to Turkish Lira. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in equity in foreign currency hedge of net investments in foreign operations fund in order to net off the increment value fund arisen from the translation of the net assets of investments in foreign operations. As of September 30, 2018, a portion of bank borrowings amounting to EUR 153,846,154 (before tax) was designated as a net investment hedging instrument (December 31, 2017: EUR 153,846,154).

Foreign currency position

Assets and liabilities denominated in foreign currency held by the Group before consolidation adjustments are as follows:

	September 30, 2018	December 31, 2017
Assets	7,868,118	4,582,379
Liabilities	(8,987,956)	(5,639,134)
Net position of financial statement	(1,119,838)	(1,056,755)
Net position of derivative instruments	794,031	1,086,338
Foreign currency position (net)	(325,807)	29,583

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NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Currencies, other than the functional currencies of the Company and its’ subsidiaries are accepted as foreign currencies. The original currencies are presented in thousands (‘000).

The original currency amounts of assets and liabilities denominated in foreign currencies and the total TRY equivalent as of September 30, 2018 are as follows:

	EUR	USD	GBP	RUB	PLN	ROL	CZK	NOK	SEK	ZAR	DKK	AUD	NZD	JPY	CAD	THB	CNY	CHF	PKR	TRY Equivalent
Current Assets																				
Trade receivables	427,335	205,006	104,877	662,337	95,170	-	277,401	-	-	152,256	64,641	49,580	1,581	-	2,915	-	544,359	-	385	6,135,362
Monetary financial assets	122,005	83,105	9	-	-	3	7	-	553	5	17,388	-	357	-	3	-	-	-	-	1,363,874
Other	11,951	46,821	67	-	-	-	-	-	-	-	-	-	-	-	-	-	1,419	588	-	368,882
Total Assets	561,291	334,932	104,953	662,337	95,170	3	277,408	-	553	152,261	82,029	49,580	1,938	-	2,918	-	545,778	588	385	7,868,118
Current Liabilities																				
Trade payables	199,106	261,903	653	-	-	-	-	1,657	859	-	2,156	-	-	7,470	-	157	79,274	593	-	3,034,287
Financial liabilities	32,036	12,361	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	296,711
Other monetary liabilities	1,437	9,480	-	-	-	-	-	-	-	-	-	10,174	515	-	-	-	-	-	-	112,685
Non-Current Liabilities																				
Financial liabilities	361,111	500,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,505,002
Other monetary liabilities	-	6,556	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	39,271
Total Liabilities	593,690	790,300	653	-	-	-	-	1,657	859	-	2,156	10,174	515	7,470	-	157	79,274	593	-	8,987,956
Net Position of Financial Statement:	(32,399)	(455,368)	104,300	662,337	95,170	3	277,408	(1,657)	(306)	152,261	79,873	39,406	1,423	(7,470)	2,918	(157)	466,504	(5)	385	(1,119,838)
Off-balance sheet derivative assets (*)	394,492	535,146	-	-	-	-	-	-	-	-	-	9,450	-	-	-	-	2,276	-	-	5,990,264
Off-balance sheet derivative liabilities (*)	(358,995)	(124,800)	(106,729)	(675,000)	(90,000)	-	(265,000)	-	-	(150,000)	(80,000)	(49,000)	(950)	-	(2,750)	-	(550,000)	-	-	(5,196,233)
Net position of off-balance sheet items	35,496	410,346	(106,729)	(675,000)	(90,000)	-	(265,000)	-	-	(150,000)	(80,000)	(39,550)	(950)	-	(2,750)	-	(547,724)	-	-	794,031
Net Asset/(Liability) Position of Foreign Currency	3,097	(45,022)	(2,429)	(12,663)	5,170	3	12,408	(1,657)	(306)	2,261	(127)	(144)	473	(7,470)	168	(157)	(81,220)	(5)	385	(325,807)
Net Asset/(Liability) Position of Foreign Currency Monetary Items	(44,350)	(502,189)	104,233	662,337	95,170	3	277,408	(1,657)	(306)	152,261	79,873	39,406	1,423	(7,470)	2,918	(157)	465,085	(593)	385	(1,488,720)
Fair Value of Financial Instruments Used for Foreign Exchange Hedge																				105,201
Hedged Amount of Foreign Currency	358,995	124,800	106,729	675,000	90,000	-	265,000	-	-	150,000	80,000	49,000	950	-	2,750	-	550,000	-	-	5,196,233
Hedged Amount of Foreign Currency Liabilities	240,646	535,146	-	-	-	-	-	-	-	-	-	9,450	-	-	-	-	2,276	-	-	4,920,956

(*) Some portion of EUR denominated bonds issued designated as hedging instrument against to the foreign currency risk arisen from the conversion of net investments in foreign operation at subsidiaries located in Europe, is included in off balance sheet derivative assets.

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NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Net foreign currency positions against the functional currencies are as follows:

September 30, 2018	EUR	USD	GBP	RUB	PLN	RON	CZK	NOK	SEK	ZAR	DKK	AUD	NZD	JPY	CAD	THB	CNY	CHF	PKR	TRY equivalent
Against TRY	7,981	(3,432)	(3,239)	(12,663)	5,170	3	12,401	-	2	-	(56)	614	-	(7,470)	168	-	(5,641)	-	385	18,331
Against EUR	-	(992)	-	-	-	-	-	-	-	2,261	-	-	-	-	-	-	-	(5)	-	(5,020)
Against RUB	853	1,076	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,838)	-	-	7,322
Against PLN	(355)	24	-	-	-	-	7	-	-	-	-	-	-	-	-	-	-	-	-	(2,321)
Against GBP	2,453	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,050
Against RON	(2,731)	(788)	864	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(16,956)
Against CZK	(540)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,753)
Against NOK	265	-	-	-	-	-	-	-	(308)	-	(71)	-	-	-	-	-	-	-	-	1,569
Against SEK	1,944	-	-	-	-	-	-	(1,657)	-	-	-	-	-	-	-	-	-	-	-	12,299
Against CNY	(190)	(162)	(92)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,009)
Against ZAR	505	(430)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	934
Against AUD	321	(815)	-	-	-	-	-	-	-	-	-	-	473	-	-	-	-	-	-	(775)
Against EGP	23	916	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,647
Against UAH	(3,468)	(42)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(24,356)
Against CHF	(1,315)	19	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(9,026)
Against BWP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Against NZD	(31)	(220)	-	-	-	-	-	-	-	-	-	(758)	-	-	-	-	-	-	-	(4,801)
Against USD	356	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,474
Against RSD	31	(87)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(306)
Against THB	(87)	(686)	38	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,417)
Against MYR	-	(88)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(527)
Against VND	-	(12,308)	-	-	-	-	-	-	-	-	-	-	-	-	-	(157)	-	-	-	(73,756)
Against AED	-	3,022	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,102
Against PKR	(2,918)	(30,029)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(69,741)	-	-	(260,512)
	3,097	(45,022)	(2,429)	(12,663)	5,170	3	12,408	(1,657)	(306)	2,261	(127)	(144)	473	(7,470)	168	(157)	(81,220)	(5)	385	(325,807)

ARÇELİK ANONİM ŞİRKETİ

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NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

The original currency amounts of assets and liabilities denominated in foreign currencies and the total TRY equivalent as of December 31, 2017 are as follows:

	EUR	USD	GBP	RUB	PLN	ROL	CZK	NOK	SEK	ZAR	DKK	AUD	NZD	JPY	CAD	THB	CNY	CHF	PKR	TRY Equivalent
Current Assets																				
Trade receivables	435,133	183,215	102,917	629,106	126,235	-	292,599	-	-	6	63,538	46,867	689	-	2,633	-	384,145	-	385	3,815,591
Monetary financial assets	76,305	29,881	22	-	-	48	7	4	144	5	1,446	(100)	7	-	1	-	1	1	-	458,101
Other	14,284	63,451	42	-	-	-	-	-	-	-	-	-	-	26,145	-	-	2,549	597	-	308,687
Total Assets	525,722	276,547	102,981	629,106	126,235	48	292,606	4	144	11	64,984	46,767	696	26,145	2,634	-	386,695	598	385	4,582,379
Current Liabilities																				
Trade payables	172,891	265,000	1,188	8	-	-	-	10	1,518	13,431	288	9,894	148	27,191	-	584	47,684	635	-	1,851,643
Financial liabilities	26,228	11,168	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	160,558
Other monetary liabilities	60	5,458	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	20,858
Non-Current Liabilities																				
Financial liabilities	372,222	500,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,566,718
Other monetary liabilities	-	10,434	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	39,357
Total Liabilities	571,401	792,060	1,188	8	-	-	-	10	1,518	13,431	288	9,894	148	27,191	-	584	47,684	635	-	5,639,134
Net Position of Financial Statement	(45,679)	(515,513)	101,793	629,098	126,235	48	292,606	(6)	(1,374)	(13,420)	64,696	36,873	548	(1,046)	2,634	(584)	339,011	(37)	385	(1,056,755)
Off-balance sheet																				
derivative assets (*)	366,146	525,341	-	40,000	-	-	-	-	-	-	-	9,000	-	-	-	-	-	-	-	3,663,917
Off-balance sheet																				
derivative liabilities (*)	(304,291)	(16,314)	(99,116)	(660,000)	(129,000)	-	(290,000)	-	-	-	(60,000)	(47,000)	-	-	(1,750)	-	(390,000)	-	-	(2,577,579)
Net position of																				
off-balance sheet items	61,856	509,027	(99,116)	(620,000)	(129,000)	-	(290,000)	-	-	-	(60,000)	(38,000)	-	-	(1,750)	-	(390,000)	-	-	1,086,338
Net Asset/(Liability) Position of Foreign Currency	16,177	(6,486)	2,677	9,098	(2,765)	48	2,606	(6)	(1,374)	(13,420)	4,696	(1,127)	548	(1,046)	884	(584)	(50,989)	(37)	385	29,583
Net Asset/(Liability) Position of Foreign																				
Currency Monetary Items	(59,963)	(578,964)	101,751	629,098	126,235	48	292,606	(6)	(1,374)	(13,420)	64,696	36,873	548	(27,191)	2,634	(584)	336,462	(634)	385	(1,365,442)
Fair Value of Financial Instruments Used																				
for Foreign Exchange Hedge																				
Hedged Amount of Foreign Currency Assets	304,291	16,314	99,116	660,000	129,000	-	290,000	-	-	-	60,000	47,000	-	-	1,750	-	390,000	-	-	2,577,579
Hedged Amount of Foreign Currency																				
Liabilities	216,146	525,341	-	40,000	-	-	-	-	-	-	-	9,000	-	-	-	-	-	-	-	2,986,592

(*) Some portion of EUR denominated bonds issued designated as hedging instrument against to the foreign currency risk arisen from the conversion of net investments in foreign operation at subsidiaries located in Europe, is included in off balance sheet derivative assets.

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NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Net foreign currency positions against the functional currencies are as follows:

December 31, 2017	EUR	USD	GBP	RUB	PLN	RON	CZK	NOK	SEK	ZAR	DKK	AUD	NZD	JPY	CAD	THB	CNY	CHF	PKR	equivalent
Against TRY	17,269	49,031	3,194	9,098	(2,765)	48	2,599	4	(49)	-	-	(466)	-	-	884	(389)	(5,854)	(37)	385	274,963
Against EUR	-	238	-	-	-	-	-	-	-	11	-	-	-	-	-	-	-	-	-	901
Against RUB	81	144	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	909
Against PLN	2,488	10	(1)	-	-	-	7	-	-	-	-	-	-	-	-	-	-	-	-	11,269
Against GBP	2,431	(31)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,860
Against RON	(8,793)	(541)	264	-	-	-	-	-	-	-	-	-	-	(727)	-	-	-	-	-	(40,429)
Against CZK	(584)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,637)
Against NOK	453	-	-	-	-	-	-	-	(1,325)	-	4,696	-	-	-	-	-	-	-	-	4,284
Against SEK	1,699	-	-	-	-	-	-	(10)	-	-	-	-	-	-	-	-	-	-	-	7,667
Against CNY	270	107	11	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,679
Against ZAR	(256)	(522)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,125)
Against AUD	593	54	-	-	-	-	-	-	-	-	-	-	548	-	-	-	-	-	-	4,355
Against EGP	2	(26,074)	(794)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(102,374)
Against UAH	(3,418)	(27)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(15,536)
Against CHF	742	672	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,886
Against BWP	-	-	-	-	-	-	-	-	-	(13,431)	-	-	-	-	-	-	-	-	-	(4,120)
Against NZD	(61)	(90)	-	-	-	-	-	-	-	-	-	(661)	-	-	-	-	-	-	-	(2,556)
Against USD	302	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,364
Against RSD	4,098	(41)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,350
Against THB	(392)	(971)	-	-	-	-	-	-	-	-	-	-	-	(320)	-	-	-	-	-	(5,444)
Against MYR	-	(850)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,206)
Against VND	-	(11,447)	-	-	-	-	-	-	-	-	-	-	-	-	-	(195)	-	-	-	(43,200)
Against PKR	(747)	(16,148)	3	-	-	-	-	-	-	-	-	-	-	1	-	-	(45,135)	-	-	(90,277)
	16,177	(6,486)	2,677	9,098	(2,765)	48	2,606	(6)	(1,374)	(13,420)	4,696	(1,127)	548	(1,046)	884	(584)	(50,989)	(37)	385	29,583

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NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

As of September 30, 2018, and December 31, 2017, if related currencies had appreciated by 10% against TRY with all other variables held constant, profit before tax and other comprehensive income (before tax) as a result of foreign exchange losses on the translation of foreign exchange position is presented in the tables below. Secured portions include impact of derivative instruments.

	Gain/Loss		Other Comprehensive Income	
	Foreign exchange appreciation by 10%	Foreign exchange depreciation by 10%	Foreign exchange appreciation by 10%	Foreign exchange depreciation by 10%
September 30, 2018				
USD net asset/liability	(272,774)	272,774	(272,128)	272,128
Secured portion from USD risk	245,804	(245,804)	245,806	(245,806)
USD Net effect	(26,970)	26,970	(26,322)	26,322
EUR net asset/liability	84,413	(84,413)	123,725	(123,725)
Secured portion from EUR risk	(82,259)	82,259	24,672	(24,672)
EUR Net effect	2,154	(2,154)	148,397	(148,397)
GBP net asset/liability	81,436	(81,436)	96,424	(96,424)
Secured portion from GBP risk	(83,333)	83,333	(83,333)	83,333
GBP Net effect	(1,897)	1,897	13,091	(13,091)
RUB net asset/liability	6,003	(6,003)	72,803	(72,803)
Secured portion from RUB risk	(6,118)	6,118	(6,118)	6,118
RUB Net effect	(115)	115	66,685	(66,685)
RON net asset/liability	-	-	120,602	(120,602)
Secured portion from RON risk	-	-	-	-
RON Net effect	-	-	120,602	(120,602)
PLN net asset/liability	15,450	(15,450)	30,749	(30,749)
Secured portion from PLN risk	(14,611)	14,611	(14,611)	14,611
PLN Net effect	839	(839)	16,138	(16,138)
CZK net asset/liability	7,487	(7,487)	15,730	(15,730)
Secured portion from CZK risk	(7,152)	7,152	(7,152)	7,152
CZK Net effect	335	(335)	8,578	(8,578)
NOK net asset/liability	(121)	121	(329)	329
Secured portion from NOK risk	-	-	-	-
NOK Net effect	(121)	121	(329)	329
SEK net asset/liability	(21)	21	8,197	(8,197)
Secured portion from SEK risk	-	-	-	-
SEK Net effect	(21)	21	8,197	(8,197)
NZD net asset/liability	564	(564)	564	(564)
Secured portion from NZD risk	(377)	377	(377)	377
NZD Net effect	187	(187)	187	(187)
ZAR net asset/liability	6,419	(6,419)	121,744	(121,744)
Secured portion from ZAR risk	(6,324)	6,324	(6,324)	6,324
ZAR Net effect	95	(95)	115,420	(115,420)
AUD net asset/liability	16,991	(16,991)	10,812	(10,812)
Secured portion from AUD risk	(17,053)	17,053	(17,053)	17,053
AUD Net effect	(62)	62	(6,241)	6,241
DKK net asset/liability	7,434	(7,434)	7,434	(7,434)
Secured portion from DKK risk	(7,445)	7,445	(7,445)	7,445
DKK Net effect	(11)	11	(11)	11
JPY net asset/liability	(39)	39	(39)	39
Secured portion from JPY risk	-	-	-	-
JPY Net effect	(39)	39	(39)	39
CAD net asset/liability	1,341	(1,341)	1,341	(1,341)
Secured portion from CAD risk	(1,264)	1,264	(1,264)	1,264
CAD Net effect	77	(77)	77	(77)
THB net asset/liability	(3)	3	63,928	(63,928)
Secured portion from THB risk	-	-	-	-
THB Net effect	(3)	3	63,928	(63,928)
EGP net asset/liability	-	-	5,532	(5,532)
Secured portion from EGP risk	-	-	-	-
EGP Net effect	-	-	5,532	(5,532)
UAH net asset/liability	-	-	1,650	(1,650)
Secured portion from UAH risk	-	-	-	-
UAH Net effect	-	-	1,650	(1,650)
CNY net asset/liability	40,370	(40,370)	53,832	(53,832)
Secured portion from CNY risk	(47,398)	47,398	(47,398)	47,398
CNY Net effect	(7,028)	7,028	6,434	(6,434)
CHF net asset/liability	(3)	3	28,143	(28,143)
Secured portion from CHF risk	-	-	-	-
CHF Net effect	(3)	3	28,143	(28,143)
BWP net asset/liability	-	-	174	(174)
Secured portion from BWP risk	-	-	-	-
BWP Net effect	-	-	174	(174)
RSD net asset/liability	-	-	5,319	(5,319)
Secured portion from RSD risk	-	-	-	-
RSD Net effect	-	-	5,319	(5,319)
MYR net asset/liability	-	-	1,021	(1,021)
Secured portion from MYR risk	-	-	-	-
MYR Net effect	-	-	1,021	(1,021)
VND net asset/liability	-	-	1,875	(1,875)
Secured portion from VND risk	-	-	-	-
VND Net effect	-	-	1,875	(1,875)
PKR net asset/liability	2	(2)	137,898	(137,898)
Secured portion from PKR risk	-	-	-	-
PKR Net effect	2	(2)	137,898	(137,898)
AED net asset/liability	-	-	2,066	(2,066)
Secured portion from AED risk	-	-	-	-
AED Net effect	-	-	2,066	(2,066)
IDR net asset/liability	-	-	2,206	(2,206)
Secured portion from IDR risk	-	-	-	-
IDR Net effect	-	-	2,206	(2,206)
	(32,581)	32,581	720,676	(720,676)

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NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

	Gain/Loss		Other Comprehensive Income	
	Foreign exchange appreciation by 10%	Foreign exchange depreciation by 10%	Foreign exchange appreciation by 10%	Foreign exchange depreciation by 10%
December 31, 2017				
USD net asset/liability	(194,446)	194,446	(192,306)	192,306
Secured portion from USD risk	192,000	(192,000)	192,000	(192,000)
USD Net effect	(2,446)	2,446	(306)	306
EUR net asset/liability	47,107	(47,107)	54,245	(54,245)
Secured portion from EUR risk	(39,802)	39,802	27,931	(27,931)
EUR Net effect	7,305	(7,305)	82,176	(82,176)
GBP net asset/liability	51,714	(51,714)	66,251	(66,251)
Secured portion from GBP risk	(50,354)	50,354	(50,354)	50,354
GBP Net effect	1,360	(1,360)	15,897	(15,897)
RUB net asset/liability	4,094	(4,094)	47,505	(47,505)
Secured portion from RUB risk	(4,034)	4,034	(4,034)	4,034
RUB Net effect	60	(60)	43,471	(43,471)
RON net asset/liability	5	(5)	102,933	(102,933)
Secured portion from RON risk	-	-	-	-
RON Net effect	5	(5)	102,933	(102,933)
PLN net asset/liability	13,681	(13,681)	23,801	(23,801)
Secured portion from PLN risk	(13,981)	13,981	(13,981)	13,981
PLN Net effect	(300)	300	9,820	(9,820)
CZK net asset/liability	5,177	(5,177)	10,219	(10,219)
Secured portion from CZK risk	(5,131)	5,131	(5,131)	5,131
CZK Net effect	46	(46)	5,088	(5,088)
NOK net asset/liability	-	-	410	(410)
Secured portion from NOK risk	-	-	-	-
NOK Net effect	-	-	410	(410)
SEK net asset/liability	(63)	63	5,396	(5,396)
Secured portion from SEK risk	-	-	-	-
SEK Net effect	(63)	63	5,396	(5,396)
NZD net asset/liability	147	(147)	147	(147)
Secured portion from NZD risk	-	-	-	-
NZD Net effect	147	(147)	147	(147)
ZAR net asset/liability	(412)	412	80,878	(80,878)
Secured portion from ZAR risk	-	-	-	-
ZAR Net effect	(412)	412	80,878	(80,878)
AUD net asset/liability	10,835	(10,835)	8,036	(8,036)
Secured portion from AUD risk	(11,166)	11,166	(11,166)	11,166
AUD Net effect	(331)	331	(3,130)	3,130
DKK net asset/liability	3,917	(3,917)	3,917	(3,917)
Secured portion from DKK risk	(3,633)	3,633	(3,633)	3,633
DKK Net effect	284	(284)	284	(284)
JPY net asset/liability	(3)	3	(3)	3
Secured portion from JPY risk	-	-	-	-
JPY Net effect	(3)	3	(3)	3
CAD net asset/liability	791	(791)	791	(791)
Secured portion from CAD risk	(526)	526	(526)	526
CAD Net effect	265	(265)	265	(265)
THB net asset/liability	(7)	7	24,344	(24,344)
Secured portion from THB risk	-	-	-	-
THB Net effect	(7)	7	24,344	(24,344)
EGP net asset/liability	-	-	(8,965)	8,965
Secured portion from EGP risk	-	-	-	-
EGP Net effect	-	-	(8,965)	8,965
UAH net asset/liability	-	-	798	(798)
Secured portion from UAH risk	-	-	-	-
UAH Net effect	-	-	798	(798)
CNY net asset/liability	19,534	(19,534)	28,866	(28,866)
Secured portion from CNY risk	(22,473)	22,473	(22,473)	22,473
CNY Net effect	(2,939)	2,939	6,393	(6,393)
CHF net asset/liability	(14)	14	27,098	(27,098)
Secured portion from CHF risk	-	-	-	-
CHF Net effect	(14)	14	27,098	(27,098)
BWP net asset/liability	-	-	135	(135)
Secured portion from BWP risk	-	-	-	-
BWP Net effect	-	-	135	(135)
RSD net asset/liability	-	-	4,221	(4,221)
Secured portion from RSD risk	-	-	-	-
RSD Net effect	-	-	4,221	(4,221)
MYR net asset/liability	-	-	(1,330)	1,330
Secured portion from MYR risk	-	-	-	-
MYR Net effect	-	-	(1,330)	1,330
VND net asset/liability	-	-	(944)	944
Secured portion from VND risk	-	-	-	-
VND Net effect	-	-	(944)	944
PKR net asset/liability	1	(1)	93,687	(93,687)
Secured portion from PKR risk	-	-	-	-
PKR Net effect	1	(1)	93,687	(93,687)
IDR net asset/liability	-	-	1,799	(1,799)
Secured portion from IDR risk	-	-	-	-
IDR Net effect	-	-	1,799	(1,799)
	2,958	(2,958)	490,562	(490,562)

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NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT
(Continued)

Import and exports performed to / from Turkey for the periods ended as of September 30, 2018 and 2017 are as follows:

	September 30, 2018		September 30, 2017	
	Original Amount	TRY equivalent	Original amount	TRY equivalent
EUR	702,459,628	3,915,116	738,891,403	2,963,540
USD	288,129,034	1,362,369	224,928,289	804,750
GBP	218,917,551	1,387,409	191,781,027	878,031
Other		764,340		530,227
Total exports		7,429,234		5,176,548
EUR	259,243,220	1,558,508	310,339,849	1,235,687
USD	652,490,582	3,298,808	721,145,225	2,584,833
GBP	872,903	6,317	738,695	3,372
Other		4,024		4,150
Total imports		4,867,657		3,828,042

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values of financial instruments have been determined by the Group, using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

Following methods and assumptions were used to estimate the fair value of the financial instruments for which is practicable to estimate fair value:

Financial Assets

The carrying values of financial assets including cash and cash equivalents which are accounted with their costs are estimated to be their fair values since they are short term.

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

Financial Liabilities

The fair values of short-term financial liabilities and other financial liabilities are estimated to be their fair values since they are short term.

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NOTE 28 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT
(Continued)

As of September 30, 2018, the carrying value and the fair value of the long-term borrowings, including the short-term portions, are equal to TRY 8,330,493 (December 31, 2017: TRY 5,075,303) (Note 6) and TRY 8,325,742 (December 31, 2017: TRY 5,074,184) respectively. Fair value is calculated by discounting the cash out flows regarding due dates of borrowings considering the changing country risk premium and changes in market interest rates.

Fair value hierarchy table

The Group classifies the fair value measurement of each class of financial instruments according to the source, using the three-level hierarchy, as follows:

Level 1: Market price valuation techniques for the determined financial instruments traded in markets (unadjusted).

Level 2: Other valuation techniques includes direct or indirect observable inputs. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates.

Level 3: Valuation techniques does not contain observable market inputs.

Fair value hierarchy table as of September 30, 2018 is as follows:

Financial assets carried at fair value in statement of financial position	Level 1	Level 2	Level 3
Derivative instruments (assets) (Note 7)	-	183,833	-
Financial investments (Note 5)	2,090	-	-
Financial liabilities carried at fair value in statement of financial position			
Derivative instruments (liabilities) (Note 7)	-	78,632	-

Fair value hierarchy table as of December 31, 2017 is as follows:

Financial assets carried at fair value in statement of financial position	Level 1	Level 2	Level 3
Derivative instruments (assets) (Note 7)	-	47,382	-
Financial investments (Note 5)	2,473	-	-
Financial liabilities carried at fair value in statement of financial position			
Derivative instruments (liabilities) (Note 7)	-	13,888	-

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NOTE 29 - SUPPLEMENTARY CASH FLOW INFORMATION

Statements of cash flows are presented within the consolidated financial statements.

Details of "adjustments for provisions" and "adjustments for impairment loss" lines presented in the consolidated statements of cash flows are as follows:

	January 1- September 30, 2018	January 1- September 30, 2017
Adjustments for provisions:		
Accrual for customer premiums	336,367	216,372
Warranty provision	147,029	35,237
Accrual for bonuses and premiums	82,460	60,703
Provision for employment termination benefits	23,751	22,009
Provision for vacation pay liability	20,069	6,079
Provision for assembly and transportation cost	16,921	43,715
Return provisions	7,284	2,375
Provision for legal claims	3,348	(39)
	637,229	386,451
	January 1- September 30, 2018	January 1- September 30, 2017
Adjustments for impairment loss:		
Provision for doubtful receivables	19,372	4,308
Provision for impairment on inventories	10,264	4,248
	29,636	8,556

NOTE 30 – EVENTS AFTER BALANCE SHEET DATE

In accordance with the authorization given by article 7 of the Company's Articles of Association and with the provisions of the Capital Markets Board's Communiqué on Debt Securities, on October 24, 2018 our Board of Directors have decided on issuance of bonds or bills for a total amount up to TRY 1,000,000,000 denominated in Turkish Lira issuing within 1 year period and with various compositions and terms, one or more at a time, to be determined according to market conditions, to be sold to domestic qualified investors without public offering and to be traded in the relevant market of Borsa İstanbul A.Ş. in a such way not to cause public offering and within the aforementioned limits on the issuance of such bonds or bills, to grant authorization any two of General Manager and Assistant General Managers together to sign in order to make an application to the Capital Markets Board for the approval of the issuance certificate; determination of all conditions including issuance, maturity, interest rate, additional rate of return, issuance time and sales form for all issues to be made during the validity period of our issuance certificate approved by the Capital Markets Board; selection of intermediary institution; signing of all kinds of documents, completion of the necessary applications and all other transactions related to the Capital Markets Board, Borsa İstanbul A.Ş., Central Registry Agency, Takasbank A.Ş. and other relevant authorities for the realization of issuances, determination of distribution principles and allocations, issuance and sales purposes on behalf of our Company.