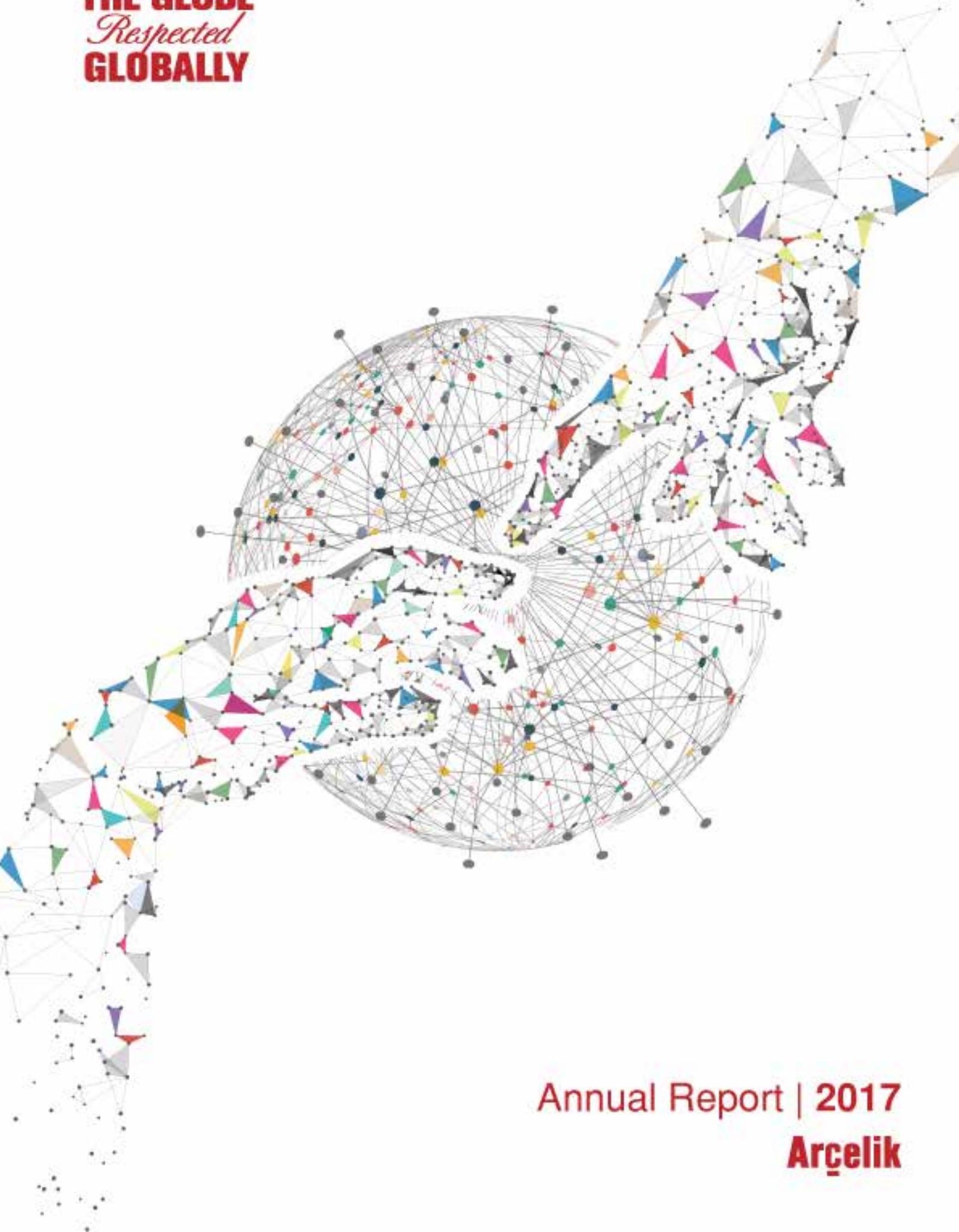


Respects
THE GLOBE
Respected
GLOBALLY



Annual Report | 2017
Arçelik



I live and prosper with my country.
As long as democracy exists and thrives, so do we.

We shall do our utmost to strengthen our economy.
As our economy prospers, so will democracy and our
standing in the world.

Vehbi KOÇ



Respects
THE GLOBE
Respected
GLOBALLY

Arçelik Group's vision of "Respects The Globe, Respected Globally" aims to achieve profitable and sustainable growth; to increase market share in its target market; the globe; to reach more consumers in a fast-changing world with innovative products and services; to safeguard the future with corporate responsibility; and to integrate and optimize the components of the global organization while becoming a global group.



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January | February | March

- Arçelik A.Ş. showcased its corporate solutions at the 21st EMITT Tourism Exhibition.
- Arçelik A.Ş. launched "White Goods Development Package" to support the Turkish retail industry which gained pace with the discount in the special consumption tax (ÖTV).
- Arçelik A.Ş. organized the first "Supplier Day" in the ASEAN Region at Beko Thailand Plant.
- Beko opened its first store in Saudi Arabia.
- Arçelik A.Ş. opened Garage, Workshop 4.0 and TECH PRO Academy at Çayırova Campus.
- Arçelik became the Main Sponsor of National Football Teams in cooperation with the Turkish Football Association.
- Arçelik A.Ş. shared the 25-year success story of Beko PLC at the "Learn From Experience" panel of the Technology Investment Conference organized by the UK International Trade Department.

April | May | June

- Beko, FC Barcelona's Premium Partner, launched the new range of cooling products inspired by the colors of FCB.
- Arçelik A.Ş. extended the partnership agreement with LG Electronics Inc. until 2023. Multi V 5 VRF system, the first product of the new period of partnership, was launched.
- Beko products were introduced to the Paraguayan market.
- Dawlance launched the "Glass Door Inverter Refrigerator" which provides excellent energy savings.
- Arçelik launched Turkey's first "Quantum Dot Television".
- Arçelik A.Ş. organized a founding ceremony for the Arctic 4.0 Washing Machine Plant in Romania.
- Arçelik A.Ş. rewarded 508 engineers at the 19th Invention Day. The number of women in the invention team increased by 34% to 86 in the last two years.
- Arçelik A.Ş. ranks 74th in the World Intellectual Property Organization (WIPO).
- The first of Arçelik's new generation stores was opened in Izmir Asmaçati.
- Arçelik A.Ş. signed the "Science Based Targets Initiative" and committed to reduce the greenhouse gas emissions based on scientific data.
- Arçelik A.Ş. was the first Turkish company to participate in the Energy Efficiency Forum organized within the scope of G20 Summit.
- Arçelik A.Ş. launched "Supplier Innovation Program" in collaboration with Anadolu University R&D and Innovation Coordination Center Technology Transfer Office.
- Following the agreement between Arçelik A.Ş. and Voltas, main shareholder of Tata, the name of the manufacturing and sales company in India was registered as "Voltbek Home Appliances Private Limited."



July | August | September

- Former Barcelona Football Club star and French national Éric Abidal visited Beko Showroom in Dubai.
- Beko opened its first store in Maldives.
- Arçelik A.Ş. issued "Sustainability Report" in which it has revealed 2020 goals for the first time.
- Arçelik A.Ş. has become the one and only Turkish industrial company that entered Dow Jones Emerging Markets Sustainability Index.
- Arçelik A.Ş. entered FTSE 4Good Emerging Markets Index that ranks globally responsible investments.
- Arçelik A.Ş. has demonstrated the most innovative products and technologies under Beko and Grundig roof in IFA Fair organized in Germany.
- Having produced the first Turkish coffee machine of Turkey, Arçelik introduced Telve Pro® Professional Turkish Coffee Machine developed for businesses where coffee consumption is high.
- Grundig launched "Respect Food" project with the purpose of drawing attention to unnecessary food consumption and contributing to a sustainable life.
- Arçelik opened its next generation store that offers an extraordinary experience to consumers in Istanbul İstinye Park.
- Beko launched a global initiative with FC Barcelona under the name of "Eat Like A Pro" in order to encourage children to a healthy nutrition.

October | November | December

- Arçelik A.Ş. was listed in Borsa Istanbul Sustainability Index for the 4th time.
- Arçelik A.Ş. was placed in A List of both climate and water program of Carbon Disclosure Project (CDP) as one of the 25 global companies that achieved this success.
- Grundig launched manifesto film about food waste, reminding the world the necessity of respecting food on October 16th, the World Food Day.
- Arçelik A.Ş. has committed to increasingly continue its efforts on raising awareness among consumers and accelerating the use of energy efficiency in products in accordance with the agreement signed with "Sustainable Energy for All Initiative" (SEforALL).
- Beko celebrated the 20th anniversary of its presence in Georgian market.
- Arçelik A.Ş. became the only company that represented Turkey by participating in "Transforming Refrigerator and Air Conditioner Markets through Cooperative Initiatives" panel organized by United Nations Climate Change Conference (COP23).
- Arçelik A.Ş. signed Women's Empowerment Principles (WEPEs) of the United Nations.
- Beko opened the first semi-assembly production line in Ethiopia under cooperation with their South African distributor AI-Sam PLC.
- Arçelik A.Ş. introduced smart home technologies, wearable healthcare products and industrial robotic technologies at "Turkey Innovation Week".
- Rahmi M. Koç, Chairman of Arçelik A.Ş. Board of Directors visited Beko Thailand Plant.
- Arçelik A.Ş. launched the newly developed next generation Mobile ECG Follow-Up System "BeyondCare®".
- Grundig became the main sponsor of "YEDİ", the international food conference.

REPORT OF THE BOARD OF DIRECTORS AND MESSAGE FROM THE CHAIRMAN

Dear Shareholders,

I offer you my warmest greetings, and hope that our meeting to share the results of 2017 will be productive for us all.

Last year was less volatile than previous years, both domestically and globally. However, we remained prepared for anything that might be affected by economic or political changes, taking swift action when necessary.

Recently, the global economy has shown a general recovery, which has positively impacted the markets. This was mainly driven by the US, and we have kept a close eye on its policies and the tangible improvements in economic indicators. Despite positive developments in this key market, rumors of the possible implementation of protective measures against free trade have caused concerns.

Meanwhile, monetary and financial policies implemented by both member states and the European Central Bank have resulted in positive developments in Europe, our primary regional business partner. Growth rates reached levels not seen for a number of years, especially in the last quarter of the year. And yet a question mark remains over the ultimate form that Brexit might take, and its subsequent impact.

In the Asia-Pacific region, we note that the long-term recession in Japan has turned into a slight recovery. As the second biggest player in the global economy, China has brought its growth rate to a more reasonable, yet stable and healthy level. Developing countries, too, are regarded as having a positive outlook.

The most important factors affecting the global economy this year are estimated to be the Federal Reserve's monetary policies and oil prices. We believe the current, positive atmosphere will continue unless we observe an extraordinary economic or political event.

In terms of our national economy, the actions taken by our government last year were focused mainly on growth. It is clear that year 2017 is set to close with a successful growth rate of 7% thanks to various support measures such as tax reductions, incentives and credit facilitations for certain / strategic industries, as well as a recovery in exports.

If positive developments in the global market allow us to continue our export operations, and the Turkish government continues to provide support for growth this year, our projections are for a reasonable growth rate, albeit possibly not as high as last year.

Dear Shareholders,

As a leading and pioneering Koç Holding company in the durable consumer goods sector, we continue to have ambitious targets, despite challenging national and international competition in the last term. Thanks to maintaining our strong position in existing markets and successful geographic investments, we have increased our turnover by 29% to TRY 20.8 billion.

We have worked to further strengthen our successful position in Europe, as well as having a presence in diverse geographies and reinforcing our long-standing domestic market leadership. Our partnership agreement with Voltas, a company owned by Tata, the largest holding in India, is a prime example of this vision. We will operate under the Voltas-Beko brand in that country, which has become the rising star of the global economy due to its large population, rapidly growing middle class and support for new investments. I believe we will become an important player in the market thanks to the refrigerator plant that we are building this year. Furthermore, I'm very happy to say that our investments in high potential markets in Asia-Pacific, the Americas and Africa have started to yield revenues.

Arçelik knows the importance of innovation in today's industry, and is implementing new projects in the arena of technology and innovation. Our company is taking steps to reinforce its R&D strength and build the smart factories of the future. This year, we are planning to commission a new washing machine plant in Romania, which will operate on the basis of industry 4.0.

“

Having increased consolidated turnover by 29% to TRY 20.8 billion thanks to an increasing contribution from new geographies and our strong position in Turkey, Arçelik continues its steady growth in this industry.

”



We believe that industrial digital transformation should not be limited to smart production centers, but be implemented throughout the entire system. In this context, we have opened our next generation R&D center “Garage” and advanced robotics laboratory “Atölye 4.0” in order to adopt current production technologies quickly. I am closely monitoring the initial results of these initiatives, and foresee us spearheading the transformation of our industry.

We continued to strengthen our brand both at home and abroad. We are pursuing ambitious goals with over 1300 R&D personnel at 14 R&D and Design Centers in five countries to develop environmental-friendly products that will enhance the lives of consumers, while providing maximum efficiency. As a company that has developed over 3,000 inventions to date, we are proud to be the Turkish Patent League Champion, and among the top 100 companies to have filed the most patent applications globally with the World Intellectual Property Organization (WIPO).

Our policy to respect the planet and the environment is as important as our strategy of sustainable profitable growth. We endeavor to take part in sustainability initiatives that will leave future generations a better world, and which ensure the steady growth for our company and strengthen our corporate reputation. Our efforts in this regard have resulted in good news in 2017: we have become the first Turkish industrial company

to be listed on the Dow Jones Sustainability Index, one of the world’s leading sustainability indices. We have also debuted on the FTSE4Good Developing Markets Index, and for the third time we have been rated “AAA”, the highest rating in the MSCI Global Sustainability Index Series. We have also been included in the Borsa Istanbul Sustainability Index for the fourth time.

We will continue to develop our technological and innovative competencies, strengthen our brands, create value for our shareholders and employees, and fulfill our social responsibilities based on our philosophy of innovation just as we have always done. I believe that our company will continue to grow due to our strong corporate culture and a management philosophy that upholds universal values.

I take this opportunity to thank all our directors, employees, partners, shareholders, trade unions and the employers’ union, as well as the consumers who have made us who we are today, and especially Vehbi Koç, our founder, to whom we owe our 63 years of success.

I extend to all of you our sincere affection and respect.

Rahmi M. Koç
Chairman of the Board
Arçelik A.Ş.

MESSAGE FROM THE GENERAL MANAGER

Dear Shareholders, Partners and Employees,

It has been a year of important geopolitical and economic developments for all of us, both at home and abroad. After the weak growth trend of recent years, the global economy has experienced a recovery led by developed countries in 2017. The US has been the best performing economy among those countries, while the Euro Zone has demonstrated overall growth, particularly in Germany. Uncertainty in the British economy has grown due to Brexit, while China has achieved a growth performance that exceeded expectations, despite some concerns. The global economy is estimated to have grown by 3.6% in 2017. The latest growth estimates of the International Monetary Fund (IMF) for 2018 and 2019 indicate a more positive outlook of 3.7% and 3.8%, respectively. While we closely follow the interest policy of the Fed and oil prices in 2018, continuation of the recovery led by developed countries is the leading positive factor for the global economy.

The global white goods market continues to grow

In 2017, the global white goods market grew by 2.6% in unit terms to 519 million units, and in terms of turnover, growth of 3.2% reached 195 billion USD. The TV market grew to 233.9 million units, expanding 2.5%, and remaining steady in turnover terms at 110 billion USD.

For Europe, our primary export market, the white goods market has grown by approximately 2.8% in unit terms when compared to the previous year. Despite negative market conditions in the UK and Germany, the Western European market grew by 1.7%. After the downward trend that began in the last quarter of 2016, the UK market has narrowed by approximately 2% in 2017. Germany, the biggest market in the region, has remained steady compared to the previous year. France, Spain and Italy were the three markets to outperform the regional average. The Eastern Europe market has grown by over 5%, including approximately 5.7% growth in Russia, the biggest market in the region, 4% in Poland and Romania, and 20% in Ukraine. Meanwhile, the South African white goods market, where we are present with our Defy brand, has grown by approximately 5%.

It has been a strong year for the Turkish market thanks to the impact of the reduction in the special consumption tax (SCT). The market grew by 14% over the year for the six main product categories. While we expect to remain horizontal in 2018, we aim to continue our leadership with our strong brands. Estimates indicate growth in the global white goods market of approximately 2% in 2018, and we anticipate the same for Europe as well.

We have preserved our market share in the highly competitive European market

In 2017, we maintained our leadership in the free-standing segment with Beko in the highly competitive European white goods market. We view the built-in market as strategically important, and have taken steps to reinforce the presence of our Grundig brand in the premium segment, while signing new agreements to advance further. We have also seen significant turnover growth in the small home appliances market, which is another strategic growth segment for us.

We continued our growth in Asia-Pacific with our Beko brand. Our turnover was approximately 100 million USD thanks to our expanding distribution network. Our Thailand refrigerator factory has exceeded 250,000 units, and our aim is to increase our production to 400,000 units this year.

We have also focused on expanding our Sub-Saharan Africa operations that we manage under our Defy brand. We export Defy products to 34 countries and we are entering new, high-potential African markets. In addition to our existing assembly line in Sudan, we have built a new assembly line in Ethiopia through our distributor, to increase our penetration and offer specific solutions to consumers in the region.

We aim to continue our steady growth

Arçelik's consolidated turnover in 2017 reached 20.8 billion TL, a rise of 29% thanks to growth in the Turkish market fueled by reduced SCT, the effects of foreign exchange rates caused by the devaluation of the Turkish Lira, and the year-long contribution of Dawlance, which we acquired at the end of 2016. Sixty-one percent of our sales revenues were from international markets. Our net profit was 845 million TRY.

Higher raw material costs and the impact of foreign exchange rate inputs have been factors that adversely affected our profitability in 2017. We aim to improve our profitability with a stronger performance in 2018 thanks to projects aimed at cutting costs and increasing production efficiency at our factories, our digital transformation initiatives, and the growing contribution of our operations in new regions. While our goal is to increase our consolidated turnover by 20% in 2018, we anticipate our EBITDA margin at around 10%.

“

Here at Arçelik, our aim is to become leaders in the primary product categories of the white goods segment in all our core markets, with a strong focus on built-in products and premium segments in 2008.

”



We have set a healthy growth target for 2018 by focusing on strategic segments, while maintaining our position in the primary product groups in the European market. We aim to reinforce our turnover growth by expanding our distribution network in the ASEAN region, where we anticipate growth exceeding the global average. North America is another market where we plan to achieve critical growth. We will increase the number of products that address a wider audience in the US market with our Beko brand.

Significant development in new regions

In 2017, we took strategic steps in new regions. We have reached a joint venture agreement with Voltas, which is part of the Tata Group, one of India's most well-established companies located in the world's second largest country by population, at 1.3 billion. Our presence in the high-potential Indian market will not be limited to production, as we will also bring our know-how, engineering, R&D and technological strengths to this market. We plan to commence commercial operations this year, while we intend to launch our refrigerator factory investment once suitable property is identified.

We continue to focus on the Asia-Pacific region. Accordingly, we have established a new sales company and entered Indonesia, one of the fastest developing economies in the region. Following the acquisition of Dawlance, the leading white goods company of Pakistan, we had a highly successful integration process in our first year. We will expand our product portfolio by leveraging our technology know-how in this high-potential market.

We have also started building our washing machine factory in Romania where we will implement the pioneering practices of Industry 4.0. Our factory, set to become one of the digital factories of the future, will be partially commissioned by the end of this year.

We also believe it is important to expand strategic cooperation with our global partners. We launched the first VRF air-conditioner production in Turkey as part of our partnership with LG Electronics in the commercial air conditioner market. We aim to become an important player in this market.

Our vision for the Turkish market is to become the best omnichannel retailer and service provider, and to outpace the competition with our consumer-oriented solutions through our dealers and service centers. In light of this vision, our goal is to become one of the world's top retailers. To achieve this ambitious goal, we have taken significant steps in our next generation retailing initiative. We opened the biggest Arçelik experience store at İstinye Park Shopping Mall, and continue to implement the transformation through next generation concept stores in every corner of Turkey.

MESSAGE FROM THE GENERAL MANAGER

Transformation in production technologies with Garage and Atölye 4.0

We have established our next generation R&D center, Garage, as an idea generation base that offers advanced digital production technologies, encourages cooperation and gathers feedback from customers. We selected the best from over 5,000 ideas and launched six different product prototypes at IFA, the most prestigious global fair of our industry.

We have accelerated our studies in Atölye 4.0, the hands-on training center that we built to prepare for Industry 4.0. Our experts across various disciplines are working together with universities, institutions and companies in order to create their own solutions for advanced production technologies in Atölye 4.0.

We introduce our technologies at the world's most prestigious trade fairs. Our products that received the most attention include UltraFast, the fastest washer-dryer in the world; AutoDosing, the first automatic detergent dosing domestic dishwasher in Europe; smart home platform HomeWhiz; the new VUX® Marble Induction Furnace; and Microgarden, which allows users to grow fresh and healthy small plants and greens at home without compromising their nutritional value.

We have continued to develop corporate social responsibility projects. In cooperation with FC Barcelona, Beko launched the "Eat Like a Pro" initiative to take on the global problem of obesity. The "Respect Food" initiative to combat food waste, which was implemented through our Grundig brand, has now expanded to Turkey with the "Ruhun Doysun" project.

Our success has been recognized with multiple awards

Our technology, innovation competence and skills have been recognized by our rise on international lists. We have risen four steps to 74th on the list of "Companies that filed the most international patent applications" issued by the World Intellectual Property Organization (WIPO).

In structuring all our processes on a sustainability basis to leave future generations a better world, we have achieved new and important success in the field of sustainability in 2017. We represented Turkey at the UN Climate Change Conference (COP23) organized in Germany.

In 2017, we became the only Turkish industrial company to be included in the Dow Jones Sustainability Index (DJSI), one of the leading indices in the field of corporate sustainability.

Our efforts to combat global warming have also been rewarded internationally. We have been placed on the A List of both the climate and water program of the Carbon Disclosure Project - CDP, one of the world's most important and prestigious environmental initiatives, and we are one of only 25 global companies to have achieved this.

We believe in the power of sports to reach wider audiences and touch people's lives thus we are expanding our investments in this field. We sponsor FC Barcelona and Beşiktaş with Beko, and support golf and sailing with Grundig. We have also taken an important step with our Arçelik brand to become the Primary Sponsor of the Turkish National Football Team.

We have received a prestigious award in the field of production effectiveness and quality. Our Eskisehir Refrigerator Plant won the "TPM World Class" award in the field of Total Productive Maintenance from the Japanese Institute of Plant Maintenance, becoming the first plant to achieve this success in its industry.

At Arçelik, we aim to become leaders in the primary product categories of the white goods segment in all our core markets, with a strong focus on built-in products and premium segments in 2018. We will push geographical and product-based boundaries and redefine our core business over time. Therefore, we will expand our product portfolio and develop high quality, intelligent and connected products. We will continue to take advantage of organic and inorganic growth opportunities in Asia, the Americas and Africa in order to maintain our profitability and our place among the top three in new markets. We will focus on strengthening our core business, even while creating new, sustained and recurring sources of income.

I would like to take this opportunity to express my gratitude and respect to our shareholders, who have always stood by us on our journey, to our partners who share our common vision and goals, to our employees, who react quickly to adapt to changing conditions and add value to our company, and to our customers, who appreciate what we do.

Hakan Bulgurlu
General Manager
Arçelik A.Ş.



AUDITOR'S REPORT ON ANNUAL REPORT

**CONVENIENCE TRANSLATION INTO ENGLISH OF
INDEPENDENT AUDITOR'S REPORT
ON THE BOARD OF DIRECTORS' ANNUAL REPORT
ORIGINALLY ISSUED IN TURKISH**

To the General Assembly of Arçelik A.Ş.

1. Opinion

We have audited the annual report of Arçelik Holding A.Ş. (the "Company") and its subsidiaries (collectively referred to as the "Group") for the 1 January - 31 December 2017 period.

In our opinion, the financial information and the analysis made by the Board of Directors by using the information included in the audited financial statements regarding the Group's position in the Board of Directors' Annual Report are consistent and presented fairly, in all material respects, with the audited full set consolidated financial statements and with the information obtained in the course of independent audit.

2. Basis for Opinion

Our independent audit was conducted in accordance with the Independent Standards on Auditing that are part of the Turkish Standards on Auditing (the "TSA") issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities in the Audit of the Board of Directors' Annual Report section of our report. We hereby declare that we are independent of the Group in accordance with the Ethical Rules for Independent Auditors (the "Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

3. Our Audit Opinion on the Full Set Consolidated Financial Statements

We expressed an unqualified opinion in the auditor's report dated 30 January 2018 on the full set consolidated financial statements for the 1 January - 31 December 2017 period.



4. Board of Director's Responsibility for the Annual Report

Group management's responsibilities related to the annual report according to Articles 514 and 516 of Turkish Commercial Code ("TCC") No. 6102 and Capital Markets Board's ("CMB") Communiqué Serial II, No:14.1, "Principles of Financial Reporting in Capital Markets" (the "Communiqué") are as follows:

- a) to prepare the annual report within the first three months following the balance sheet date and present it to the general assembly;
- b) to prepare the annual report to reflect the Group's operations in that year and the financial position in a true, complete, straightforward, fair and proper manner in all respects. In this report financial position is assessed in accordance with the financial statements. Also in the report, developments and possible risks which the Group may encounter are clearly indicated. The assessments of the Board of Directors in regards to these matters are also included in the report.
- c) to include the matters below in the annual report:
 - events of particular importance that occurred in the Company after the operating year,
 - the Group's research and development activities,
 - financial benefits such as salaries, bonuses, premiums and allowances, travel, accommodation and representation expenses, benefits in cash and in kind, insurance and similar guarantees paid to members of the Board of Directors and senior management.

When preparing the annual report, the Board of Directors considers secondary legislation arrangements enacted by the Ministry of Customs and Trade and other relevant institutions.



5. Independent Auditor's Responsibility in the Audit of the Annual Report

Our aim is to express an opinion and issue a report comprising our opinion within the framework of TCC and Communiqué provisions regarding whether or not the financial information and the analysis made by the Board of Directors by using the information included in the audited financial statements in the annual report are consistent and presented fairly with the audited consolidated financial statements of the Group and with the information we obtained in the course of independent audit.

Our audit was conducted in accordance with the TSAs. These standards require that ethical requirements are complied with and that the independent audit is planned and performed in a way to obtain reasonable assurance of whether or not the financial information and the analysis made by the Board of Directors by using the information included in the audited financial statements in the annual report are consistent and presented fairly with the audited consolidated financial statements and with the information obtained in the course of audit.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

Cihan Harman, SMMM
Partner

Istanbul, 23 February 2018





Sustainable Growth

“

"Despite the risks, Arçelik A.Ş. has achieved a net profit of TRY 845 million in 2017 thanks to strong financial structure, innovative products that set trends in the business, right investments that brought global competitive edge and corporate culture that based on sustainability."

”

FINANCIAL STATEMENT SUMMARY 2017

- Consolidated net sales revenue of **2017** has reached TRY **20,841** million, corresponding to an increase of **29.5%** as compared to 2016.
- Consolidated operating profit **2017** (*) reached TRY **1,406** million, net profit reached TRY **845** million.
- 61%** of consolidated sales in **2017** were generated by international sales.

Operating
Profit (*)

1,406
TRY Million

Net
Profit

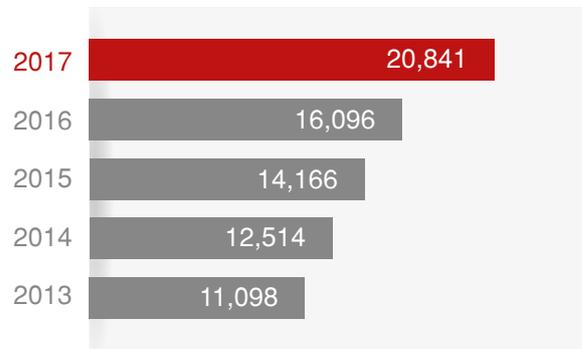
845
TRY Million

Net
Sales

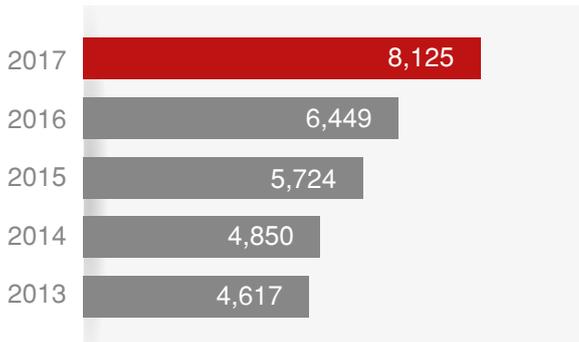
20,841
TRY Million

Net Sales
2017

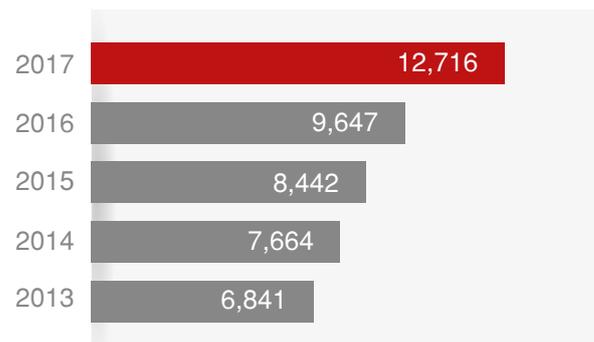
20,841
TRY Million



Net Sales - Turkey
2017



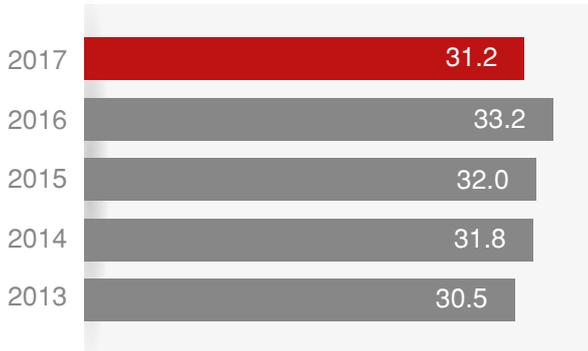
Net Sales - International
2017



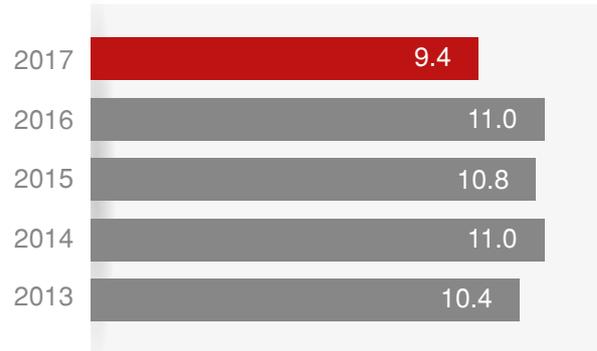
(*) Operating profit was calculated by deducting the impact of foreign exchange rate gains and losses from trade receivables and payables, credit finance income and charges, cash discount expense, and dividend received from financial investments and income from sales of financial investments and adding incomes and expenses from fixed asset sales in order to maintain consistency with the presentation of the previous term.

FINANCIAL INDICATORS

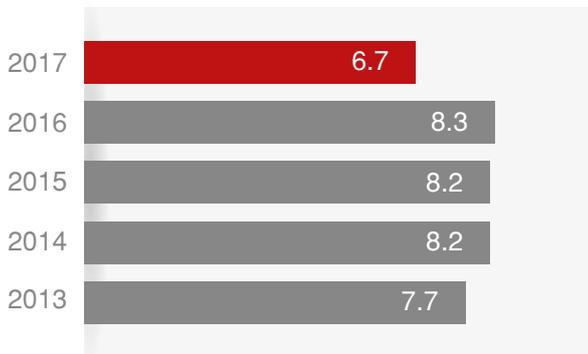
Gross Profit Margin



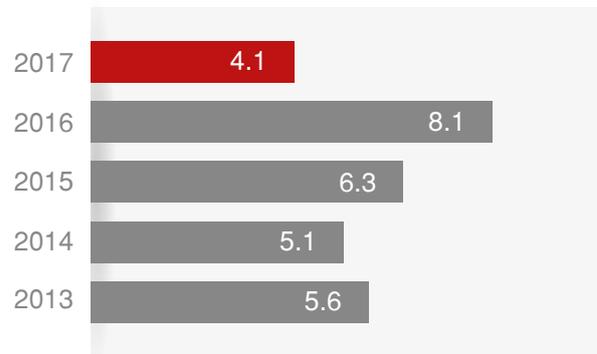
Earnings before interest, tax, depreciation and amortization (*)



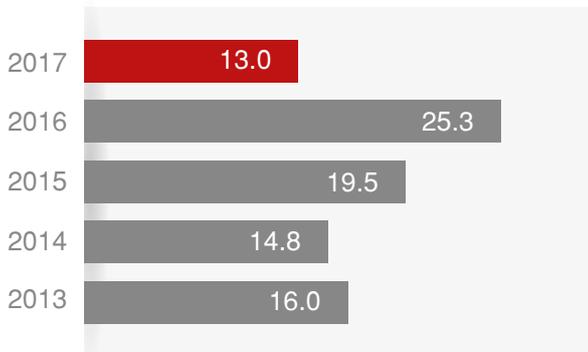
Operating Profit Margin (*)



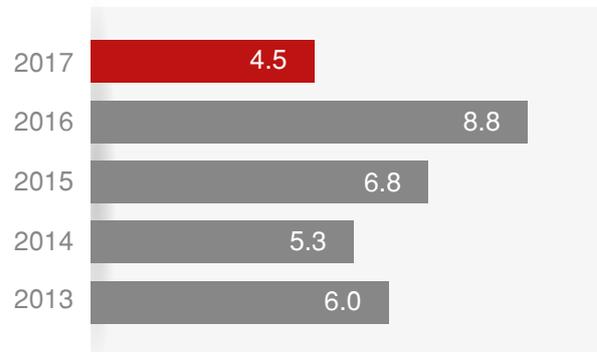
Net Profit Margin



Return on Equity

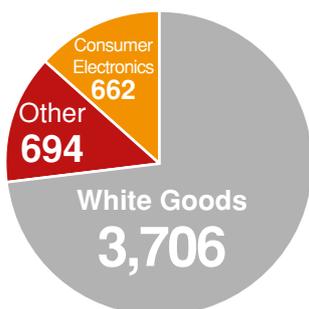


Return on Assets



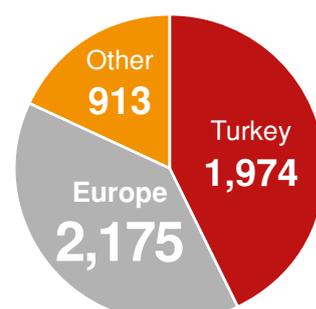
Net Sales by Product Group EUR Million

2017



Regional Distribution of Net Sales EUR Million

2017



(*) Operating profit margin and EBITDA margin were calculated by deducting the impact of foreign exchange rate gains and losses from trade receivables and payables, credit finance income and charges, cash discount expense, and dividend received from financial investments and income from sales of financial investments and adding incomes and expenses from fixed asset sales in order to maintain consistency with the presentation of the previous term.

FIVE - YEAR CONSOLIDATED FINANCIAL REVIEW

EUR Million	2017	2016	2015	2014	2013
INCOME STATEMENT					
Net sales	5,063	4,819	4,692	4,307	4,395
Gross profit	1,581	1,599	1,502	1,369	1,342
Operating profit (*)	341	398	383	352	338
Profit before tax	199	360	260	252	295
Net profit	205	390	296	220	247
Depreciation and redemption	133	131	122	119	120
BALANCE SHEET					
Year-end cash and cash equivalent	572	658	682	575	431
Inventory	837	744	673	753	677
Current assets	3,014	2,961	2,960	3,003	2,608
Tangible assets	723	741	647	643	626
Total assets	4,526	4,558	4,324	4,394	3,886
Total short-term liabilities	1,861	1,781	1,648	1,571	1,393
Total liabilities	2,994	2,939	2,852	2,835	2,476
Minority interest	8	7	6	15	26
Equity	1,531	1,619	1,471	1,559	1,409
CASH FLOW					
Net cash flow from operating activities	120	619	571	345	152
Net cash flow from investment activities	-237	-299	-198	-145	-188
Net cash flow before financial activities	-117	320	372	200	-36
Dividends paid	103	78	116	122	160
Capital expenditures	242	251	217	159	207
SHARE-BASED DATA					
Dividends (Euro)	0.156	0.188	0.128	0.178	0.176
Year-end share price (Euro)	4.73	5.74	4.40	5.32	4.14
Price-Earning Ratio	17.26	11.02	10.59	16.43	13.73
Dividends/net profit (%)	51.6	32.7	29.4	56.7	50.2
Year-end market value	3,198	3,861	2,971	3,593	2,796
PERSONNEL INFORMATION					
Number of employees	28,103	29,551	26,337	24,876	23,392
Blue collar	21,447	24,048	21,760	20,517	19,222
White collar	6,656	5,503	4,577	4,359	4,170

(*) Operating profit was calculated by deducting the impact of foreign exchange rate gains and losses from trade receivables and payables, credit finance income and charges, cash discount expense, and dividend received from financial investments and income from sales of financial investments and adding incomes and expenses from fixed asset sales in order to maintain consistency with the presentation of the previous term.

SHAREHOLDERS

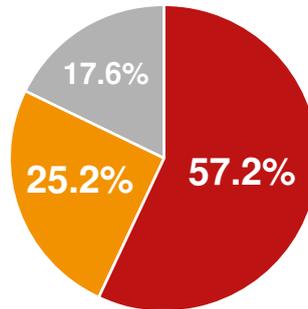
According to financial statements for the term 01.01.2017–31.12.2017, dividend distribution started as of 03.04.2017 pursuant to decision of the Ordinary General Assembly of Shareholders convened on 23.03.2017. The cash dividends totaling to TRY 425,000,000 are allocated from current year incomes and extraordinary reserves.

As of 2017, the fully paid-up issued capital of the company was TRY 675,728,205, which is divided into 67,572,820,500 registered shares, each with a nominal value of 1 Kurus. The registered capital of the company is TRY 1,500,000,000.

There are no preference shares. Each share with a nominal value of 1 Kurus is entitled to one vote in the General Assembly.

Shareholders	Amount of shares (TRY)	Share percentage (%)
Koç Holding A.Ş.	273,742,027	40.5
Koç Group, Other	113,026,127	16.7
Koç Group, Total	386,768,154	57.2
Teknosan Büro Makina ve Levazımı Tic. ve San. A.Ş.	81,428,337	12.0
Burla Ticaret ve Yatırım A.Ş.	37,571,663	5.6
Other Shareholders	169,960,051	25.2
TOTAL	675,728,205	100.0

Shareholders have not made any transactions through non-public shares in 2017.



Koç Group

Burla Group

Other

DIVIDENDS PAID

The amount of dividends paid over the revenues from 2012 to 2016, the distributable profit as of the concerning years and their ratio to the capital are as follows.

Dividend Payment Year	Issued Capital (TRY Thousand)	Dividends Paid (TRY Thousand)	Gross Dividend of per Nominal Share of TRY 1 (TRY)	Dividend Ratio (%)	Earnings per Nominal Share of TRY 1 (TRY)
2012	675,728	355,000	0.52536	52.5	0.777
2013	675,728	300,000	0.44396	44.4	0.885
2014	675,728	350,000	0.51796	51.8	0.913
2015	675,728	262,000	0.38773	38.8	1.319
2016	675,728	425,000	0.62895	62.9	1.924

Ratio of Dividend to Capital Over the Years

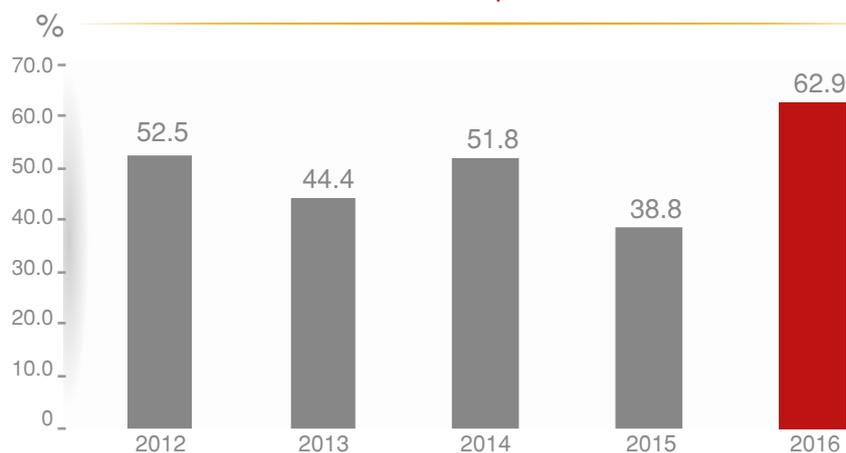
Dividend Distribution Policy for 2013 and following years: "Our Company exercises dividend distribution pursuant to the provisions of Turkish Commercial Code, Capital Market Regulations, Tax Regulations and other relevant regulations as well as the provisions of our Articles of Association related to distribution of dividends. The distribution of dividends is based on a balanced and consistent policy between shareholders and corporate interests in accordance with Corporate Governance Principles.

As a principle, 50% of the distributable term profit (calculated as per the Capital Market Regulations) is distributed in the form of cash and/or bonus shares to the extent allowed by the relevant regulations and financial facilities as long as they have provisions in the existing resources specified in our legal records on the basis of market expectations, long-term corporate strategy, investment and finance policies, profitability and cash position.

The purpose is to distribute dividends within maximum one month after the General Assembly meeting, which also decides on the date of distribution of dividends. General Assembly or Board of Directors (if authorized) may decide on distribution of dividends in installments in accordance with the Capital Market Regulations.

The Articles of Association of the Company states that "The Board of Directors may distribute dividend advance provided that it is authorized by the General Assembly, and that it complies with the Capital Market Regulations".

Ratio of Dividend to Capital Over the Years



SHARE PERFORMANCE

Company shares are traded in IMKB and Borsa Istanbul since January 1986. The last 5-year performance of shares in the stock exchange is summarized in the following table.

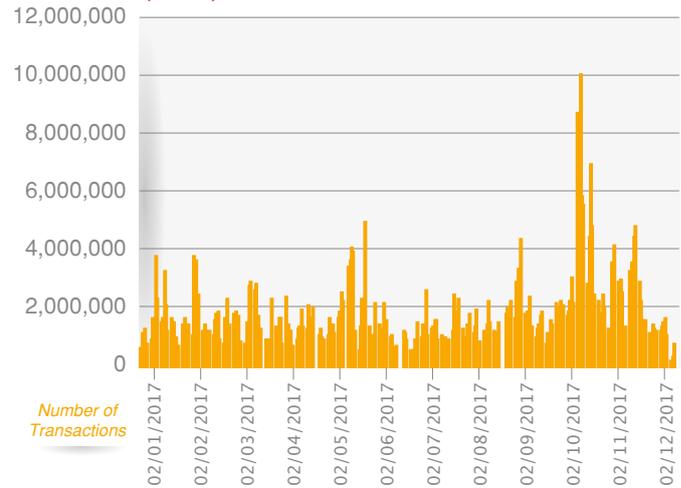
Share Data	2017	2016	2015	2014	2013
Lowest price (TRY) (*)	19.28	13.05	12.62	9.6	8.27
Highest price (TRY) (*)	27.22	21.64	15.91	14.30	12.80
End-of-year price (TRY) (*)	21.52	20.61	13.31	13.80	10.76
End-of-year price (TRY)	21.52	21.2	13.97	15.00	12.15
Issued capital (TRY Thousand)	675,728	675,728	675,728	675,728	675,728
Market Value (TRY Thousand)	14,541,671	14,325,438	9,439,923	10,135,923	8,210,098
Market Value (USD Thousand)	3,816,311	4,056,129	3,246,637	4,371,005	3,846,740

(*) Corrected to capital.

The following graphic shows the share performance from 01.01.2017 to 31.12.2017. Accordingly, share price of the Company increased by 4.4% and BIST 100 index by 47.6%.



Number of Daily Transactions in 2017 (Lots)



The daily average transaction volume of company shares in 2017 was 1,815 lots. As of the end of 2017, approximately 76.3% of the shares of the Company that are traded in Borsa Istanbul are retained by foreign investors.

Following is the list of Borsa Istanbul indexes that feature the Company as of the end of 2017. For the purposes of index calculations, the retainment rate is 25% and share weight in BIST 100 is 1.4565%.

Arçelik A.Ş. is listed in BIST Star, BIST 30, BIST 50, BIST 100, BIST All, BIST Corporate Governance, BIST Sustainability, BIST Dividends, BIST Industrial, BIST Metal Goods, Machinery, BIST Istanbul Indexes.

As a result of the revision made by Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş., the

first corporate governance rating of the Company, which was made public through the disclosure of material events as of 30.07.2009, the note was increased from 8.21 out of 10 (82.09%); to 8.55 out of 10 (85.53%) on 30.07.2010; to 8.59 out of 10 (85.91%) on 01.08.2011; to 9.11 out of 10 (91.07%) on 30.07.2012; to 9.28 out of 10 (92.80%) on 29.07.2013; to 9.41 out of 10 (94.11%) on 23.07.2014; to 9.48 out of 10 (94.80%) on 22.07.2015; and to 9.52 out of 10 (95.23%) on 22.07.2016. It has been 9.52 (95.23%) in 21.07.2017.

The Company has been included in IMKB Corporate Governance Index since 31.07.2009.

"BIST Sustainability Index" features companies that are traded in Borsa Istanbul and that demonstrate top performance in terms of corporate sustainability and the index has been calculated since 04.11.2014 and now includes Arçelik A.Ş.

RISK MANAGEMENT

Risk Management and Risk Management Committee Activities

Board of Directors establishes risk management and internal control systems that would minimize possible impacts of risks that may be imposed on company interests, especially those of the shareholders.

With the decision taken by Arçelik A.Ş. Board of Directors at the meeting on 16.07.2010, for the purpose of ensuring efficient operation of committees within the body of Board of Directors in accordance with Article 378 of Turkish Trade Law number 6102 and Corporate Governance Communiqué of Capital Market Board; a Risk Management Committee was formed in order to carry out activities with the aim of early identification of risks that may jeopardize the existence, development and continuity of the company, application of relevant actions concerning identified risks and managing risks. K. Kaynak Küçükpınar, Independent Member of the Board of Directors, is the chairman of this committee. Other member of the committee is Fatih K. Ebiçlioğlu, a member of the Board of Directors.

The Risk Management Committee's task is offering recommendations and proposals to the Board of Directors on early detection and evaluation of risks which may affect the company, calculation of their impacts and probabilities, managing and reporting these risks in accordance with the company's risk-taking profile, taking necessary measures against detected risks and establishing effective internal control systems. In this context, the Risk Management Committee held 6 meetings in 2017.

Enterprise Risk Management Directorate established under Assistant General Manager of Finance and Accounting provides Risk Management System to manage, coordinate and monitor the strategic, external based, financial, operational and compliance risks which may affect the Company. Enterprise Risk Management Directorate also reports their findings to Risk Management Committee.

Internal Control and Internal Auditing

Internal Audit Department, which is formed under the Assistant General Manager of Finance and Accounting for the purpose of healthy execution of internal auditing mechanism, reports information to the Auditing Committee at the meetings held during the year. Committee constantly supervises the execution and effectiveness of system and presents issues and suggests solutions regarding the risk management and internal control mechanism to Board of Directors when required.

Enterprise Risk Management

Arçelik A.Ş. Enterprise Risk Management operates on the framework of ensuring consistency between company risks, corporate goals and strategies, and matches strategies and goals with risks. In this process, global best practices are taken into account.

Firstly, the risks to be focused are determined and then risk management is applied on every level of functions and operations. Risk awareness of employees is increased within the scope of risk management activities taking part in the performance evaluation process of the risk responsables. The employees are encouraged to suggest on potential risk topics through risk suggestion system.

Enterprise Risk Management develops practices that create new values for the company and stakeholders; consider opportunities as well as risks; carry out gap analysis on the basis of risk appetite of the Board and Senior Management.

Enterprise Risk Management process is implemented in integration with all business processes in all production facilities, headquarters units and foreign subsidiaries of the company.

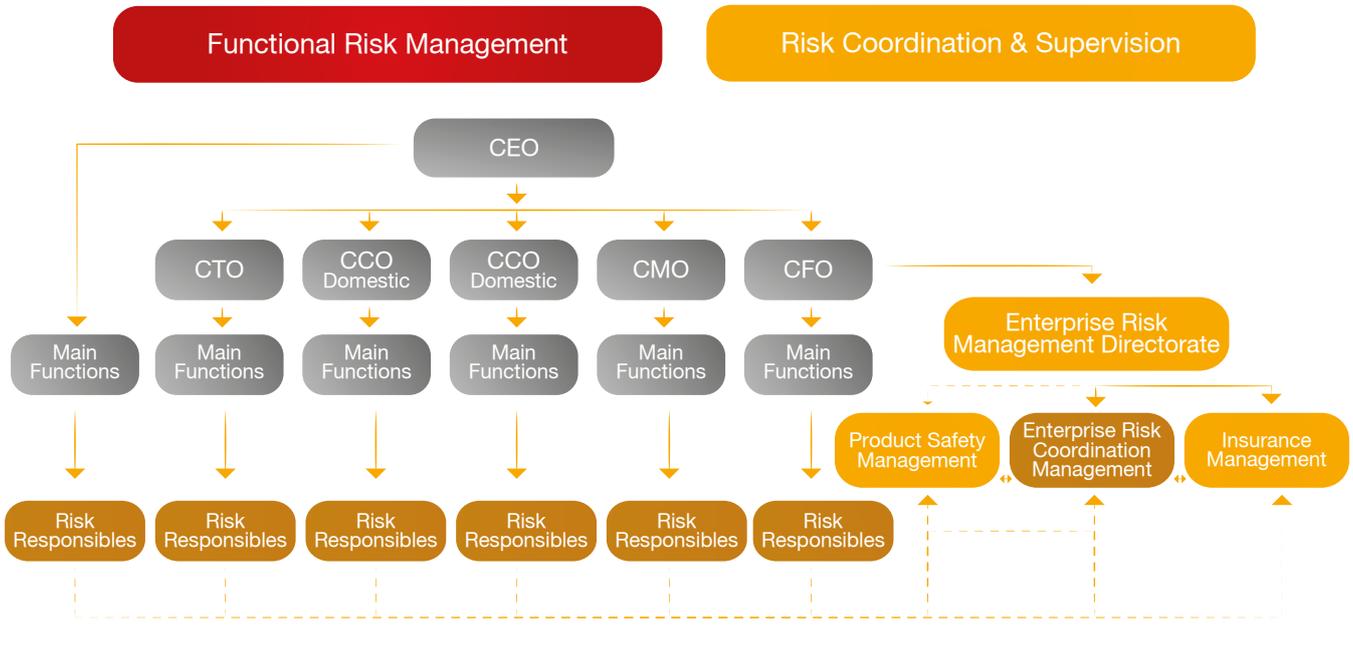
Risk Coordination and Supervision

Global risk coordination and supervision of Arçelik A.Ş. and group companies are carried out by Enterprise Risk Management Directorate under the Assistant General Manager of Finance and Accounting.

Arçelik A.Ş. risk management organization is shown in the table below:

Arçelik A.Ş. Board of Directors Risk Committee

Head: Independent Board Member
Member: Board Member



Functional Risk Management

Directors and country managers of Senior Management are responsible for the management of risks associated with their organizations or execution of tasks assigned to their organizations for the mitigation of risks associated with other organizations.

Training

Directors, country managers of group companies of Senior Management and risk responsables in all organizations are trained in terms of enterprise risk management in order to generalize risk culture and awareness within the organization.

Enterprise Risk Management Systems

Risks at Arçelik A.Ş. are defined and prioritized in 5 main categories: strategic, compliance, external based, financial and operational. Risks that are matched with corporate strategies and goals via risk management software are subjected to casual and impact analysis and actions to mitigate risks are reviewed accordingly.

All activities related to risks and risk management are reported periodically to Risk Management Committee. Senior Management monitors evaluations on prioritized risks and important actions taken.

Risks that are specially monitored within the scope of Enterprise Risk Management Program and actions taken in 2017 are summarized below:

RISK MANAGEMENT

Global Prominent Risks

Emerging risks are monitored proactively, their potential long-term impact on the company is evaluated, and Senior Management and Risk Management Committee are informed on the subject. In this context, regulation changes, climate change risks, potential destructive effects of rapidly developing technologies, cyber attacks and information security risks are considered as global prominent risks.

Energy effectiveness, nanotechnology and emission plan applications are developed on production in order to manage climate change risks, which are among the emerging global risks. In addition, participation in international organizations and events related to climate change is provided. For cyber attacks and information security risks, measures are taken at all levels of information technologies and operational processes, strategic cyber security collaborations are established, information security awareness trainings are delivered and periodical tests/controls are implemented.

Business Continuity Management

Business Continuity Management Project is conducted in order to ensure that Head Office and initially selected plants and subsidiary locations can maintain their products and services at an acceptable level after an interruption in accordance with ISO 22301 standard. In this context, Crisis Management and Business Recovery Plans are created and Emergency Response Plans are revised.

Project is aimed at swift and effective management of unexpected business interruptions and crises; and ensuring business continuity by eliminating impacts of an incident on company plants, operations, financials, reputation and stakeholders. In this context, it is aimed to use resources efficient and timely in addition to effective internal and external stakeholder communications in the event of a crisis.

Insurance Management

Insurance Management is responsible for evaluating and managing potential operational risks exposed/to be exposed.

Insurance management process basically consists of the processes for detecting operational risks, measuring, evaluating, monitoring, mitigating by controlling and reporting them.

The Group's insurance and operational activities are monitored as per the predefined rules and transferable risks are transferred to local and international insurance companies. Insurance Policies are in place in various types to cover any losses to be incurred in case risks are realized.

Modeling studies are taking place to ensure that the best risk transfer methods applicable as per the local and international regulations are used and to obtain policies that offer the best possible coverage for operational risks. Coverages are revised based on changing conditions and more effective use of the company resources is ensured.

As part of the operational risk management, commercial contracts signed by the Group (such as sales & distributorship and purchase) are revised on the basis of liabilities and indemnification conditions in order to obtain the necessary insurance coverage.

Digital transformation project is being implemented and various trainings are delivered with regards to risks and insurance processes in order to monitor and report operational risks.

Risks on Receivables

Risks on consolidated receivables at Arçelik A.Ş. and group companies are reported to committees formed by the top management of the company, and evaluated and approved in accordance with the relevant methodology within the scope of Management of Risks on International Receivables.

Receivables on local sales are monitored through coverage sufficiency, periodical risk monitoring reports and intelligence unit reports, and regularly evaluated by committees.

There are trade receivables insurances in place in order to cover the losses that would be caused by realization of risks on national and international receivables. Furthermore, other security instruments are used such as letter of credit, letter of guarantee and liens.

In order to minimize risks on receivables, risk score based on customer evaluation is calculated and risks on receivables are monitored in a consolidated manner.

Product Safety Risk

Products are reviewed by the Product Safety Department regularly in order to eliminate risks associated with product's life cycle before they occur prior to launch of products. Design, quality, production and supply processes are evaluated and inspected with regards to product safety. The purpose of this is to trigger improvement on products and processes.

Financial Risks

Following principles are applied to the management of financial risks that are divided into three categories; Liquidity Risk, Interest Rate Risk and Foreign Exchange Risk.

Liquidity Risk

The balance sheet and cash flow are managed coherently, it is considered that the maturities of receivables and payables are coherent. The net working capital goals are set clearly in order to preserve short-term liquidity and aims to keep the balance sheet ratio at certain levels within the scope of liquidity risk.

For mid- and long-term liquidity management, the company's cash flow estimations are based on markets and sector dynamics; and the cash flow cycle is monitored and tested considering various scenarios.

In order to be protected against shocks within financial markets, a minimum cash balance that is held by the Company is determined and an optimum level of cash is held in the balance sheet accordingly. The cash pool utilizes Group cash in the best way, and serves as a stock in trade in order to meet the short-term cash needs of subsidiaries.

Interest Rate Risk

Fluctuations in interest rates create substantial risk on financial results due to their impact on interest sensitive assets and liabilities. This risk is managed by using balance sheet methods such as balancing the amounts and maturities of interest sensitive items or using derivative financial products when necessary.

In this context, it is important to ensure the coherence between not only the maturities of receivables and payables but also cycle of interest rate periods.

Foreign Exchange Risk

As a result of Arçelik A.Ş. global presence, operations are being carried out in different currencies. As of 2017 year -end, the company has 28 currencies in its basket. Therefore, foreign exchange risk is a substantial financial risk that the Company is exposed to.

Trade relations between the parent company and its subsidiaries are managed based on the functional currency of subsidiaries pursuant to relevant regulations. This minimizes foreign exchange risks on the subsidiaries side. The risks are managed by the parent company. Foreign exchange risk is monitored based on functional currency for each subsidiary. It aims to keep the ratio of the amount of the position over the equity capital at a certain range.

The main principle of managing foreign currency risk is to maintain a near-zero foreign exchange position to receive a minimal impact from volatility in foreign exchange rates.

As in other risk items, the management of foreign exchange risk is preferably based on balance sheet methods as much as possible. However, the foreign exchange position is maintained at targeted levels by using derivative financial instruments when necessary.

Credit Rating

Our company has been rated by Fitch Ratings since 2006, and S&P Global Ratings since 2013. As a result of annual review meetings held in 2017, both institutions rated our Company as BB+ and confirmed the status as "stable".



A woman with long dark hair, wearing a white lab coat, is looking down at a tablet computer she is holding in her hands. She is standing in a laboratory or office environment with various pieces of equipment and shelves in the background. The entire image has a strong orange-red color overlay.

The Target Market; the Globe

“

Moving ahead towards the global growth goal established on the basis of a sustainable business model with ambition, confidence and determination, Arçelik A.Ş. records successful performances in all operation areas, knowing that the path to consumers' hearts is based on innovation, quality and trust.

”

BRANDS



Arçelik, which is the leader brand of home technologies, serves its consumers a wide range of innovative products that combine technology and design from white goods to electronics, air conditioners to heaters, small home appliances to television. Owning the widest service and sales network of Turkey, Arçelik has been selected as a Lovemark for the last 10 years in addition to being the most preferred brand by the consumers.



Being introduced to consumers in 140 countries, Beko is the second biggest brand in European white goods market and leader of solo white goods market. Beko is a global brand facilitating daily life in Turkey with white goods, small home appliances, air conditioners and electronic products.



A 134 year-old long-established German brand that has a range of solo products and built-in white goods. Bringing technology, ease of use and environment friendly features with aesthetic design; the brand offers its products to its consumers with the slogan of "In Harmony with You".



Being the oldest and most recognized brand of Romania, Arctic is also the leader of white goods market. Arctic has succeeded to be the first choice of consumers in Romania for generations, and has a very successful history.



Grundig has been manufacturing high quality, innovative, modern and timeless products for the purpose of improving the comfort of consumers since 1945. Grundig offers an excellent product and service experience to consumers through a wide product portfolio from white goods to consumer electronics, small home appliances to personal care products and sound systems.



The brand of people that desire to meet their durable consuming requirements in an economic way.



Flavel, one of the best-known white goods brand of Britain and Ireland, has a low-cost portfolio of solo and built-in products.



Elektrabregenz is a well-established brand of Austria with a history dating back to 125 years.



Leisure, a traditional brand of the British freestanding cookers market, offers gas and/or electrical range cookers and built-in appliances with traditional and contemporary designs.

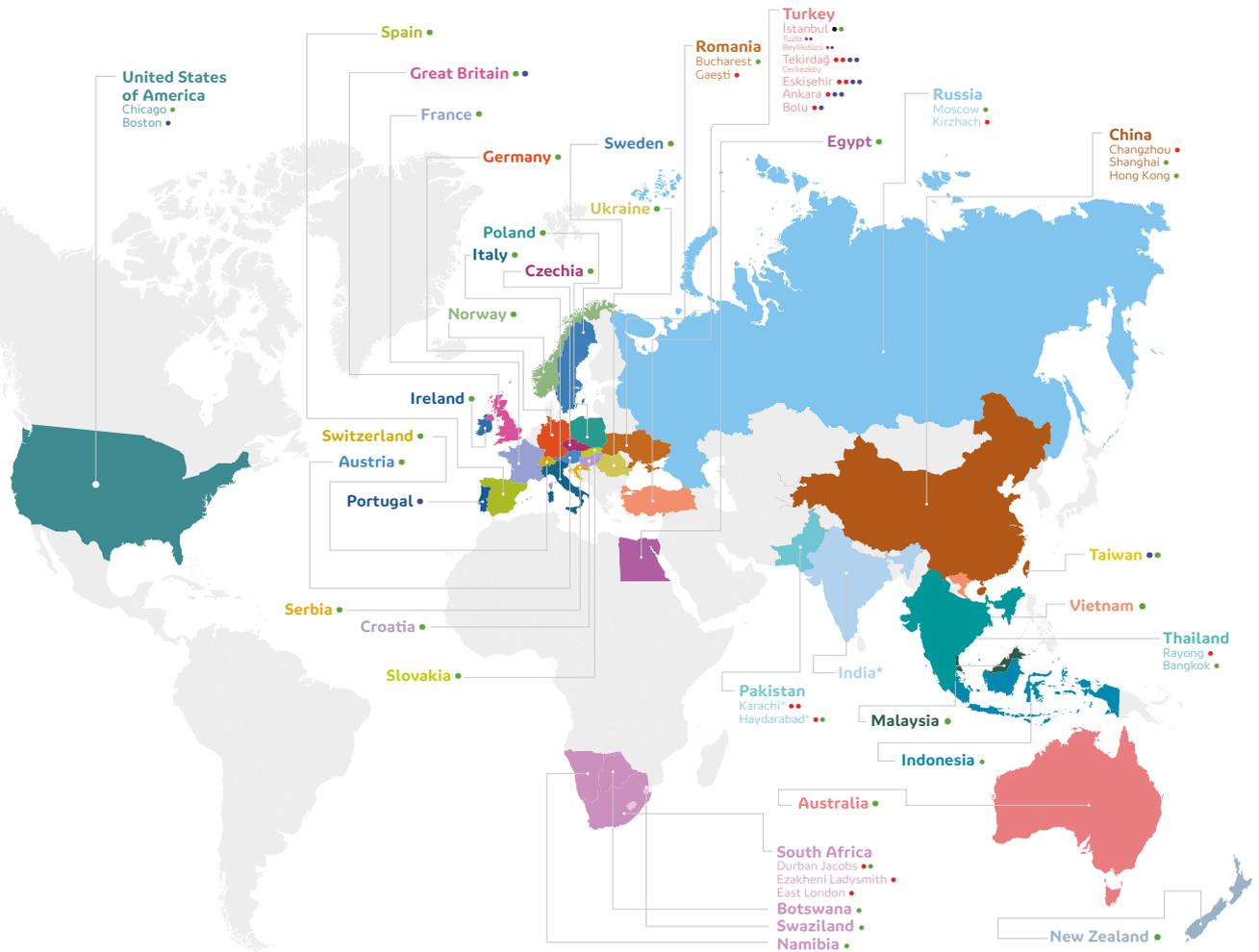


It is the leader brand of home appliances market in South Africa.



Being the leader brand of Pakistan home appliances market, Dawlance focuses on providing "reliable" solutions to consumers since day one.

GLOBAL OPERATIONAL NETWORK



• Headquarters

Turkey / Istanbul

• Production Plants

Refrigerator Plant - Eskişehir, Turkey
 Cooking Appliances Plant - Bolu, Turkey
 Dishwasher Plant - Ankara, Turkey
 Washing Machine Plant - Tuzla/Istanbul, Turkey
 Electronics Plant - Beylikduzu/Istanbul, Turkey
 Compressor Plant - Eskişehir, Turkey
 Electric Motor Plant - Cerkezkoy / Tekirdag, Turkey
 Tumble Dryer Plant - Cerkezkoy / Tekirdag, Turkey
 Arctic Refrigerating Appliances Plant - Gaesti, Romania
 Refrigerator and Washing Machine Plant - Kirzhach, Russia
 Refrigerator Plant - East London, S. Africa
 Cooking Appliances and Tumble Dryer Plant - Jacobs, S. Africa
 Refrigerating Appliances Plant - Ezakheni, Ladysmith, S. Africa
 Washing Machine Plant - Changzhou, China
 Refrigerator Plant - Thailand, Rayong
 Refrigerator Plant - Hyderabad, Pakistan
 Washing Machine and Refrigerator Plant - Karachi, Pakistan
 Cooking Appliances and A/C Plant - Karachi, Pakistan

• Production Plants - R&D Centers

• Sales & Marketing and R&D Offices

Arçelik Pazarlama A.Ş. Istanbul, Turkey
 Ardutch B.V. Taiwan Branch Taiwan
 Beko A and NZ Pty Ltd. Australia, New Zealand
 Beko Appliances Malaysia Sdn. Bhd Malaysia
 Beko Appliances Indonesia, PT Indonesia
 Beko Balkans D.O.O Serbia
 Beko Deutschland GmbH Germany
 Beko Egypt Trading LLC Egypt
 Beko Electronics España S.L. Spain
 Beko France S.A.S. France
 Beko Italy SRL Italy
 Beko LLC. Russia
 Beko Plc. UK, Republic of Ireland
 Beko Slovakia S.R.O. Slovakia
 Beko S.A. Poland, Czechia
 Beko Shanghai Trading Company Ltd. China
 Beko Thai Co., Ltd. Thailand

Beko Ukraine LLC. Ukraine
 Beko US Inc. USA
 Changzhou Beko Electrical Appliances Co. Ltd. China
 Computer Vision Interaction S.A Portugal
 Dawlance Electronics (Pvt.) Ltd. Pakistan
 Defy Appliances Ltd. Republic of South Africa
 Defy (Botswana)(Proprietary) Ltd. Botswana
 Defy (Namibia)(Proprietary)Ltd. Namibia
 Defy (Swaziland) (Proprietary)Ltd. Swaziland
 Elektra Bregenz AG Austria
 Grundig Multimedia A.G. Switzerland
 Grundig Intermedia GmbH Germany, Croatia
 Grundig Nordic No AS Norway
 Grundig Nordic AB. Sweden
 SC Arctic SA Romania
 Vietbeko Limited Liability Company Vietnam
 Beko R&D Office Taiwan
 Beko Plc. R&D Center Cambridge Science Park UK
 METU Technopolis R&D Center Ankara, Turkey
 Beko R&D Liaison Office Boston USA

* Following the agreement between Arçelik A.Ş. and Voltas, main shareholder of which is Tata, the name of the manufacturing and sales company in India was registered as "Voltbek Home Appliances Private Limited".

INTERNATIONAL MARKETS



THE TARGET MARKET; THE GLOBE

Europe's **3rd** biggest **white goods company**

Leader in Turkish white goods and air conditioner market with a share of **50%**

More than **25%** market share in television

Market leader in Romania with **Arctic**, South Africa with **Defy** and Pakistan with **Dawlance brands**

Global brand **Beko:**

Number **2 brand** in total European white goods market and leader in solo white goods market

Number **1 brand** in the UK white goods market

Number **1 brand** in the Polish white goods market

Number **1 brand** in French solo white goods market

White Goods

As of 2017, global white goods market is estimated to have reached 519 million units with a growth of 2.6% on unit basis and USD 195 billion with a growth of 3.2% on a turnover basis.

For Europe, the Company's primary exports market, white goods market has grown by approximately 2.8% in terms of units when compared to previous year. Despite the negative market conditions in Britain and Germany, the Western Europe market has grown by 1.7%. Having followed a decrease trend since the last quarter of 2016, the British market has narrowed by approximately 2% in 2017. Germany, the biggest market in the region, has remained horizontal when compared to the previous year. France, Spain and Italy were the three markets that have grown more than regional average.

A general growth has been observed in Eastern Europe with an overall growth of more than 5%. The biggest market of the region, Russia has grown by approximately 5.7% whereas Poland and Romania have grown by 4%. Ukraine has reached to a growth of 20%.

Having given signals of recovery since the second quarter, South African white goods market has grown by approximately 5% on an unit basis.

Arçelik A.Ş. was the number-three white goods manufacturer in Europe, maintained its leading position in Turkey as well as an undisputed market leadership with Arctic in Romania, Defy in South Africa and Dawlance in Pakistan.



Beko, the leading global brand of Arçelik A.Ş. in European solo white goods market, has become one of the brands that achieved the fastest growing market share in built-in products segment. Beko is the second biggest brand in overall European white goods market, and the leader in UK and Poland.

Having reached to 34 sales and marketing offices worldwide with the establishment of PT Beko Appliances in Indonesia, Arçelik A.Ş. acquired Pakistan's leading white goods brand Dawlance in 2016 with the purpose of establishing a strong presence in Asia-Pacific region, and successfully completed the first year of integration process.

Following the partnership agreement between Arçelik A.Ş. and Voltas, "Voltbek Home Appliances Private Limited" Company has been established to carry out production, sales and marketing activities in India. The purpose of the company is to offer its products under "Voltas Beko" brand.

Being the only European-origin brand of Arçelik A.Ş. that offers products in all categories of home electronics, Grundig has grown white goods sales by more than 50% since 2017 thanks to new markets.

Consumer Electronics

Global TV market has grown by 2.5% and reached 234 million units but remained horizontal at USD 110 billion on a turnover basis.



Small Home Appliances

Arçelik A.Ş. has increased the number of countries of operation in the field of small home appliances, domain in the countries of presence and product range in 2017, and continued its journey of becoming one of the biggest players in the market in the light of its policy to add value to lives of more people. Beko brand enabled company to double its turnover when compared to previous year, and the value of company has grown by 27% in Small Home Appliances market.

INTERNATIONAL MARKETS



Beko

Since we were established in 1955, one leading principle has guided us: being a partner of our consumers in their daily life needs. Consequently, we kept improving the relationship with our consumers in more than 130 countries. Having based all its operations on its consumers and innovation for environment concept, Beko is the number 1 solo home appliances in 27 countries of Europe, including Turkey.

Beko is a consumer-oriented brand that perfectly meets daily needs. Beko operates on the basis of its mission to provide consumers with flexible, fast and smart solutions in a wider range in line with needs and expectations, and has become the "Official partner of the everyday" thanks to in-depth analysis of consumer expectations.

2017 was a year full of marketing activities to strengthen the Beko brand equity by 360 degree global communication of this new platform "Official partner of the everyday". These marketing activities included mass media, instore, PR and events and FC Barcelona partnership. Beko Facebook page has been the star of the year and reached 563 million people in 2017. Beko YouTube movies have been viewed more than 100 million times.

In 2017, Beko continued its FC Barcelona sponsorship and the worldwide campaign "Premium Partner of Play" focusing on the game, club and brand values. World stars Leo Messi, Luis Suárez, Gerard Piqué, Arda Turan and Marc-André Ter Stegen played in Beko's campaign movies. Their teammates Neymar Jr., Andrés

Iniesta and Ivan Rakitic were featured in the campaign with their animated versions. Through the partnership with FC Barcelona, it is estimated that Beko has reached 1 billion viewers and 350 million fans globally.

Emphasizing on "Official partner of the everyday" concept, Beko showed a strong presence at IFA, the biggest technology fair of Europe organized in Berlin in September 2017. With the new, young and fun brand character, Beko booth has been differentiated from the competitors, and the brand has introduced in the fair its smart, flexible and environment-friendly products and real-time solutions desired to facilitate lives of consumers. FC Barcelona sponsorship and the participation of the former club star Patrick Kluivert drew vast interest of consumers. Beko launched its new initiative "Eat Like A Pro" that draws attention to child obesity in the live cooking and small home appliances section of the fair. Campaign drew vast interest of consumers, helping Beko be remembered after IFA fair. Beko has doubled the number of visitors in 2017 as compared to the previous fair.

Beko intends to be one of the top three brands in every country we operate in – both in market share and brand preference– and to be a truly loved global brand. In line with this objective and in accordance with the principle of being the solution partner that understands and facilitates the lives of consumers, we make use of global partnerships in our marketing efforts, long-term young, dynamic and playful communication platform, and a wide range of smart, flexible and fast home appliance solutions.



Arctic

Arctic, the iconic brand of Romania, stands out with value-added services offered to customers. Arctic has restructured its brand positioning in 2017 on the basis of offering new experiences to modern families in line with their needs. Arctic logo has been redesigned to give a modern, recognizable look within the scope of brand positioning strategy. Press launch of the new logo took place in May. The launch was also supported with special events and communications in line with the new concept. The logo was also integrated in all internal and external communication materials. Brand transformation activities were also conducted in the office location in Bucharest and factory in Gaesti in order to present the brand core in a better way. Small Home Appliances were added to Arctic's product range in 2017. Furthermore, works started for 13 additional new models in two stages.

BIZ Magazine, one of the prestigious magazines in Romania, awarded Arctic as "One of Top 3 Brands of Romania" as a result of the brand positioning, service approach that is based on customer needs and a wide range of innovative products.

Arctic Cooling Devices Plant is the largest refrigerator manufacturing plant in the Continental Europe. 60 main products and 450 derivatives are manufactured at the plant. The plant is located in Gaesti and manufactures high technology and quality products in accordance with the company standards. Since 2002 when majority shares were acquired by Arçelik A.Ş., Arctic has invested more than EUR 135 million on new technologies,

modern production systems and higher production capacity in the refrigerator plant in Gaesti. This investment move resulted in an incremental increase in production capacity, making Arctic one of the biggest exporters of Romania. Currently, 87% of Arctic's production is exported to more than 70 countries. With 3600 employees, Arctic is one of the biggest companies in Romania.

Arctic is also the only industrial company of Romania that uses modern production systems such as Total Productive Maintenance and Six Sigma. Arctic factory is also the first factory that received TPM Excellence Award in Romania.

Arctic plant has become the second international plant of Arçelik A.Ş. that received ISO 50001 certificate, taking its achievements in energy efficiency and management to a new level. As a result of energy efficiency efforts, the plant was entitled to "Platinum Certificate" in 2013.

In 2017, Arçelik A.Ş. has made a number of investments in order to enhance its presence in Romania. The first one is the new washing machine factory to be built in Ulmi, Dâmbovia. This new investment, which is a milestone for Arçelik A.Ş. and Arctic, is an important step in line with the strategy of transforming Romania into production center of Europe. The new factory will be the first model production center of Arçelik that operates at Industry 4.0 standards, and digital integration will be established between employees and production line equipment through wireless communication.

INTERNATIONAL MARKETS



Elektroregenz

Being the traditional white goods brand of Austria, Elektroregenz has been one of the most important brands of the domestic market for more than 120 years. Elektroregenz was founded in 1893 and acquired by Arçelik A.Ş. in 2002.

Elektroregenz provides consumers with quality products and service experience with more than 300 products in cooling, freezing, dishwashing, laundering, drying and cooking categories. Having won international awards such as "Red Dot Design Award" and "Plus X Award" many times for its innovative and durable products, Elektroregenz is also the only home appliances brand of Austria that was given the "Green Brand" award thanks to its technologies that focus on environment.

Blomberg

Blomberg, having celebrated its 134th anniversary in 2017, uniquely combines technology, ease of use and eco-friendliness with aesthetics. Blomberg offers nature friendly products that provide power and water savings with 'In Harmony With Nature' slogan, aesthetic and stylish products with 'In Harmony With Home' slogan, practical products with 'In Harmony With You' slogan and prudential products with 'In Harmony With Future' slogan for its consumers. Blomberg continues to receive appreciation of its customers for its environmentally friendly products in its product portfolio including its A+++ -30% washing machines, A+++ refrigerators, A+++ -10% dishwashers, A+++ drying machines and A-40% built-in ovens.

Blomberg is given 2017 ENERGY STAR® award by U.S. Environmental Protection Agency (EPA) as a result of successful energy efficiency projects in 2017.





Defy

Defy is South Africa's biggest manufacturer and distributor of home appliances with more than 40% market share as of 2017. Defy started its business in 1905 with electric ovens. The company has become the leader in home appliances market by adding air conditioners, gas furnaces, dishwashers, dryers, ovens and small home appliances since its establishment. Defy was acquired by Arçelik A.Ş. in 2011 and made innovation and brand development investments. Defy has three production plants: Cooking Appliances and Dryer Factory in Jacobs, Refrigerator Factory in Ezakheni (Ladysmith) and Refrigerator Factory in East London. All these plants have ISO 9001-2009 certification. Being the first choice of many consumers with a wide and strong product portfolio, Defy supports its brand position through a wide service network in addition to sales, storage, distribution and after sales services.

Cooking appliances has been the foundation of Defy's product range and they turn home cooking into an entertaining ritual. Gemini Collection of Defy that has a stylish and sophisticated design allows cooking in high volumes with its Feast Master feature. Defy's proprietary Thermofan Technology allows cooking multiple dishes without mixing odors or aromas. Having recently added a small home appliances range to its product portfolio including blenders, juicers and coffee machines, Defy also offers a wide range of cooling products. Defy cooling products include a comprehensive range of no-frost refrigerators that are equipped with Dual Cooling

technology that keeps foods fresh longer in addition to offering higher energy efficiency and better odor control. DFF420 also keeps foods fresh longer thanks to Blue Light technology. Defy provides consumers with the highest storage capacity in the market with 1 meter wide cooling appliances. "Auto Defrost" option integrated to all Defy products allows discharging of excessive fluids from the back of static units. Defy's well-known freezer range and the multi-mode functions ensure that the units can be used as a refrigerator, cooler or freezer. Defy washing machines maximize efficiency with their preloaders and allow optimum utilization of detergents thanks to Aquafusion technology. Defy Aquawave drum technology allows easy and efficient washing with front and top loading options.

Defy has organized many events in 2017. Being Defy brand ambassador, world record holder and gold medalist in 400 m men's final in Olympic Games, Wayde van Niekerk participated the Sales Conference that was held in February. Defy launched its first showroom in the Head Office building in Jacobs in July. In 2017, Defy was given "The Ask Africa Star Township Kasi Awards" award that recognizes the brands with highest consumer loyalty independent from social status and life standards of consumers, and came in first in "Top Brands Award 2017" in big home appliances category.

INTERNATIONAL MARKETS



Dawlance

Having been established in 1980 with the vision of becoming a global brand, Dawlance is currently the leading home appliances brand in Pakistan. A research conducted by IPSOS showed that Dawlance has the highest recognition level among Pakistani consumers. Dawlance is considered as the most reliable brand of Pakistan and introduces innovative products to market in line with consumers' needs.

Having a high production capacity in three factories (one in Hyderabad and two in Karachi), Dawlance invested USD 25 million to these factories in order to increase quality after being acquired by Arçelik A.Ş. in 2016. Before being acquired by Arçelik, Dawlance only had "Refrigerators, Split Air Conditioners, Microwave Ovens, Washing Machines and Freezers" in its product portfolio, which was expanded within 1 year of acquisition with the addition of 43 new models in 4 new categories including Small Home Appliances, Dishwashers, Cooking Units (Hoods and Grills) and Built-in Ovens. In addition to new products, Dawlance enriched its existing categories with the addition of No-Frost Refrigerators, Front Loading Washing Machines and Inverter Split Air Conditioners.

Dawlance provides services through 1700 dealers and 16 authorized service centers nationwide. Backed with Arçelik A.Ş.'s power, Dawlance managed to bring its relationships with dealers to higher levels as a result of events such as new product launches and dealer meetings in 2017.

Grundig

Grundig has been a part of Arçelik A.Ş. since 2007 and is the only European brand that has the widest product range in home electronics from televisions to refrigerators, personal care products to sound systems. Grundig products are offered to consumers in more than 65 countries.

Focusing on the philosophy of "Grundig makes your home best place to be", the brand turns consumers' homes into best places to be by providing them with the newest technologies.

In 2017, Grundig focused on widening its product range, innovation, and new investments. The brand made a difference in competition and raised the bar in consumer's expectations through HomeWhiz® connected white goods, VUX® technology that offers virtual kitchen experience, Gourmet Chef™ oven that allows amateurs compete with professional chefs, FreshMeter® technology that monitors freshness of meats in refrigerators, innovative Airtouch® technology that allows drying even the clothes with "Do not tumble dry" label, and OLED TV technology that opens the gates to the world of entertainment for families.

In addition to offering high-tech quality product approach, Grundig's PET Drum Washing Machines and energy efficient vacuum cleaners made of recycled plastic bottles show the brand's emphasize on sustainability.

Grundig participated IFA 2017 with a 2,200 m² booth, and more than 450 white goods and home electronics devices that were exhibited in the fair received full appreciation of consumers.

Operating under the philosophy of "Respect Food", Grundig leads the efforts against food waste and develops projects in collaboration with major organizations to create public awareness on this issue. Grundig supports "Food for Soul" initiative executed under leadership of Michelin-star Chef Massimo Bottura in an effort to develop solutions against food waste as a reflection of its "Respect Food" approach.

In this context, Grundig carried out the opening of Refettorio London and organized Slovenia Zero Waste Week event in 2017.

TURKISH MARKET



White Goods

Turkey maintained its position of being the biggest manufacturing center of Europe in white goods industry in 2017. According to data provided by White Goods Industrialists Association, exports as of December 2017 were 6% higher than the last year with 20.6 million units in six main product groups whereas domestic market grew by 14% to 8.5 million units, and air conditioner market grew by 30%.

Having undergone a restructuring and started to focus on consumer experience in Turkey with Arçelik Pazarlama A.Ş., the Company continued to reinforce its domestic market leadership through next generation state-of-the-art stores that offer interactive customer experience.



Consumer Electronics

TV

Arçelik A.Ş. continued to make innovative product investments for TV technologies in 2017. Following the first OLED TV and the thinnest Android TV, Arçelik introduced Quantum DOT TV that offers 64 times more color depth in comparison to standard LED TVs.

The Company also introduced applications with the highest usage rate in the world of personalized entertainment by offering one-click access to customers thanks to its own smart platforms. This enabled the company to provide customers with the latest technologies and Quick Smart Platforms that facilitates lives.

TV market narrowed by 6% on an unit basis in 2017. The market grew by 10.7% on a turnover basis, and the increase in Arçelik A.Ş. turnover has been very higher than the market average. In this context, product mix was driven up and higher technology products were offered to customers. For example, UHD sales increased by 42% and Smart TV sales increased by 30% when compared to previous year.

TURKISH MARKET

Corporate Displays

Arçelik A.Ş. provides businesses that use professional imaging displays and systems with the opportunity to establish faster, more effective and interactive communications with their customers in their sales, marketing and communication channels, and continues to invest in this product range from 22 in to 65 in. Having participated in Emitt Tourism Fair and Autoshow and provided the target audience of businesses from various industries with digital display experience, Arçelik A.Ş. offers enterprise solutions under one roof to design, application, engineering, maintenance and operation businesses on Hotel TV solutions, videowall and PID displays. Arçelik A.Ş. stands out with a wide, reliable service network for enterprise solutions, and provides businesses with end-to-end solutions.

Payment Systems

The transformation from old generation cash registers to next generation cash registers has been postponed until financial memories of the former becomes full due to high number of postponement requests from tax payers and professional associations because of the cost of transformation to be incurred by the tax payers. On the other hand, tax payers were made obliged to make daily reporting on their daily sales via next generation cash registers or the established methods in case of old ones until 01/07/2018. Despite the new communiqué, Arçelik continued to be the market leader with a share of 44% in 2017 thanks to regular Paro discounts, free bank bonuses and Turkish Telecom campaigns.



Small Home Appliances

While Turkish small home appliances market narrowed by 4% in terms of units, it grew by 11% in terms of value and market size reached to TRY 4 billion in 2017. Accordingly, the average sales price increased by 15%.

Arçelik A.Ş. continued its leadership position in Turkish small home appliances market in terms of units with a share of 13% and became the second biggest brand in terms of value with an increase of 1.1% in 2017. Being the “only brand” that is present in all of the vacuum cleaner, iron, kitchen appliances, microwave ovens and personal care categories, Arçelik A.Ş. increased its market share in terms of units and value in many categories through innovative products in 2017.





Arçelik

In 2017, Arçelik continued to invest in its brand value with activities in many fields from R&D to production processes, innovative products to redesigned stores, marketing to sales and services. As the most preferred and most known white goods brand of Turkey, Arçelik has been selected as Turkey's lovemark brand for the last 10 years.

Arçelik collaborated with the Turkish Football Association and became the Main Sponsor of National Football Teams, strengthening its "Turkey's national brand" positioning. Arçelik continued to support the Turkish national values by launching a highly appreciated advertisement campaign "With your effort, for your love Turkey". With this campaign Arçelik thanked the Turkish people who contributed to its national brand value and selected Arçelik as the most loved brand of Turkey.

Having reinforced its strong position in technology and design through innovative products and campaigns, Arçelik sustained the brand's "worth paying more" perception in 2017. Arçelik strengthened its "technology brand" perception by emphasizing its expertise in the washing machine segment with a new advertisement campaign about Stainpro technology that removes stains. Arçelik focused on bagless vacuum cleaners in small domestic appliances category and pointed out the superior dust collecting performance in Imperium Vacuum Cleaner advertisement campaign.

Arçelik launched Telve Pro®, the first professional Turkish Coffee machine in Turkey; remote controlled Prosmart Inverter

Air Conditioner; Quantum Dot TV technology that produces perfect image quality; and many more innovative products, and featured them in advertisement campaigns.

Arçelik communicated its award-winning activities in environment, consumer services, marketing, R&D, innovation and continued to invest in its leadership in these fields. Arçelik also communicated its brand collaborations, and invested in various brands in Arçelik stores in order to emphasize its retailer positioning.

TURKISH MARKET



Beko

Beko strives to enhance lives of consumers through innovative and environment-friendly technology products, and bases its production processes on facilitating lives.

Beko operates in global white goods and built-in appliances markets as well as the Turkish small home appliances, electronics and air conditioning markets in addition to white goods and built-in appliances markets. In 2017, Beko contributed to the growth of Turkish dryer market through image communications based on its dryer.

Beko continued its sponsorship relations with FC Barcelona and Beşiktaş Football Clubs in 2017 in addition to FCBEscola Istanbul, the official football school of FC Barcelona that operates two schools in Istanbul.

Beko continued its leadership in solo white goods market in 27 countries (including Turkey), and became the fastest growing brand in the European market.

Beko currently operates in Europe, America, Africa, Asia and Australia, and is preferred by 440 million people in 145 countries.



Grundig

Grundig has been meeting with consumers both in organized retail channel and traditional channel with TV, white goods and audio systems, and added vacuum cleaners, built-in appliances, personal care and small home appliances categories to its product range in 2017. The new product categories helped Grundig be featured in leading retail chains of Turkey, and online store investments helped brand widen its sales network, reinforcing its competitive strength and leadership.

Grundig focused on communication activities in 2017. The core brand communication project "Feed your Soul" that was created to raise awareness helped Grundig have an active presence in social media and digital channels, reaching the target audience with high access numbers.

Furthermore, campaigns (ATL&BTL&online) carried out with channel partners contributed to brand awareness and positively affected sales figures.

Grundig has grown in 2017 with effective channel investments, cooperation, differentiating product range and communication activities that went ahead of competition, and will continue to carry out value added activities in every field in 2018.





Innovation

“

Arçelik A.Ş. continues to be the pioneers of the industry with innovative approach, corporate culture that puts innovation in the heart of all business processes, and differentiating products and services that aim at creating social benefits and transformation in public.

”

INNOVATION AND SUPERIOR TECHNOLOGY



Turkey's top company that has the highest number of R&D and Design Centers with **14 global R&D and Design Centers**

More than **1300 R&D personnel**

Turkey's most successful R&D Center ⁽¹⁾

Turkish Patent League Champions and the only **Turkish Company in Top 100** of the **World Patent League** (74th) with **3000 inventions**

The Most Successful Industrial Company in Horizon 2020 Program ⁽²⁾

One of the six **Turkish Companies** among the "**Top 2500 Companies** That Make the Highest R&D Investment in the **World**" ⁽³⁾

Being an integrated part of corporate culture and the way of doing business in more than 60-year history of Arçelik A.Ş., innovation has been one of the most important building stones of sustainable and profitable growth strategy as well as brand and customer oriented business model. Arçelik A.Ş. builds all business processes around innovation concept, which is also the foundation of its success in global market.

IPR rights to innovative products and technologies, which are the outcomes of Arçelik A.Ş.'s R&D activities, are protected by patents. This also ensures competitive advantages.

Arçelik A.Ş. operates with the vision of becoming a pioneer in digital transformation of Turkey and aims at creating economic and social benefits to the nation. Arçelik A.Ş. designs smart production systems that are capable of rapidly adopting to changes in order to realize products and services that will shape the future.

For this purpose, Arçelik A.Ş. combines people with physical and cognitive systems in production technologies, and realizes user-based industrial applications with high added value.

Arçelik A.Ş. also closely follows demographic, technologic and environmental developments in order to correctly position digital future investments, and focuses on energy- and water-efficient products with distinctive designs and user interfaces, contributing to healthy life styles.

1. Source: Arçelik A.Ş. R&D Centers were in the "1st Place in Overall Turkey Classification" and "1st Place in Durable Consumer Goods Market" in the 6th Private Sector R&D and Design Centers Summit organized by the Ministry of Science, Industry and Technology in 20 and 21 December 2017.
2. Source: TÜBİTAK official H2020 website: www.h2020.org.tr
3. Source: 2017 EU R&D Scoreboard report issued by European Commission: <http://iri.jrc.ec.europa.eu/scoreboard17.html>



Arçelik A.Ş., continues to systematically evaluate innovation ideas, producing real-product quality prototypes and develop technologies that meet the needs by obtaining customer feedback at early stages in Garage, where different disciplines and professions come together.

In 2017, Internal Entrepreneurship Platform was established by Arçelik Garage to allow company employees with entrepreneurial spirit realize their innovation ideas. This platform helps creating entrepreneurship culture within the company and mentorship support is delivered to owners of ideas that establish their teams through this platform. Teams with sufficient maturity present their ideas to senior management and request budget; and entrepreneurs that have the approval are provided with the opportunity to realize their ideas by using "lean entrepreneurship" methodology. In 2017, 4 out of 18 enterprises submitted their ideas to senior management and 1 of them obtained approval to work on their project.

Cooperation with universities, research institutions and various mechanisms form an integral part of Arçelik A.Ş.'s R&D efforts. In this context, the company carries out joint projects with many national and international academies.

Arçelik A.Ş. allows both researches and partnered ecosystem enhance their digital skills and supports their development at TechPro Academy.

TECHPRO
ACADEMY



Value Added Product Activities

Arçelik A.Ş. combines its R&D activities that are carried out in the fields of sensor technologies, remote access protocols, advanced data analytics and cyber security algorithms with component-based modeling and advanced analysis methods that allow computerized calculation of product performance at the design stage.

In 2017, many products that were developed as a result of R&D activities were exhibited in many consumer fairs. These products can be highlighted as follows:

- HomeWhiz® that allows users remotely control their home appliances under smart home technologies concept
- Gourmet Chef™ Oven that is equipped with special sensor technologies and has self-cleaning feature
- AirTherapy®, the world's first washing machine that operates with hot air circulation
- Corner Wash™ Dishwasher with three spray arms that reach every corner of the machine, ensuring maximum cleaning on all surfaces
- Refrigerator with FreshMeter® technology that measures freshness of meats
- PET Drum Washing Machine made of recycled plastic bottles
- AutoDosing Dishwasher, Europe's first home dish washer with automatic detergent dosing function
- Turkey's first nanotechnology "Quantum Dot Television" that offers a new level of television experience with near real-life colors
- MicroGarden that allow users grow fresh, healthy, small and green herbs at home without losing their nutritive values
- Telve Pro®, the Turkish Coffee Maker that allows making nine cups of coffee with three different options at the same time
- BeyondCare®, the Mobile ECG Monitoring System that monitors and analyzes vital values such as cardiac rhythm, activity, respiration and body temperature.

Industry-Leading Production Activities

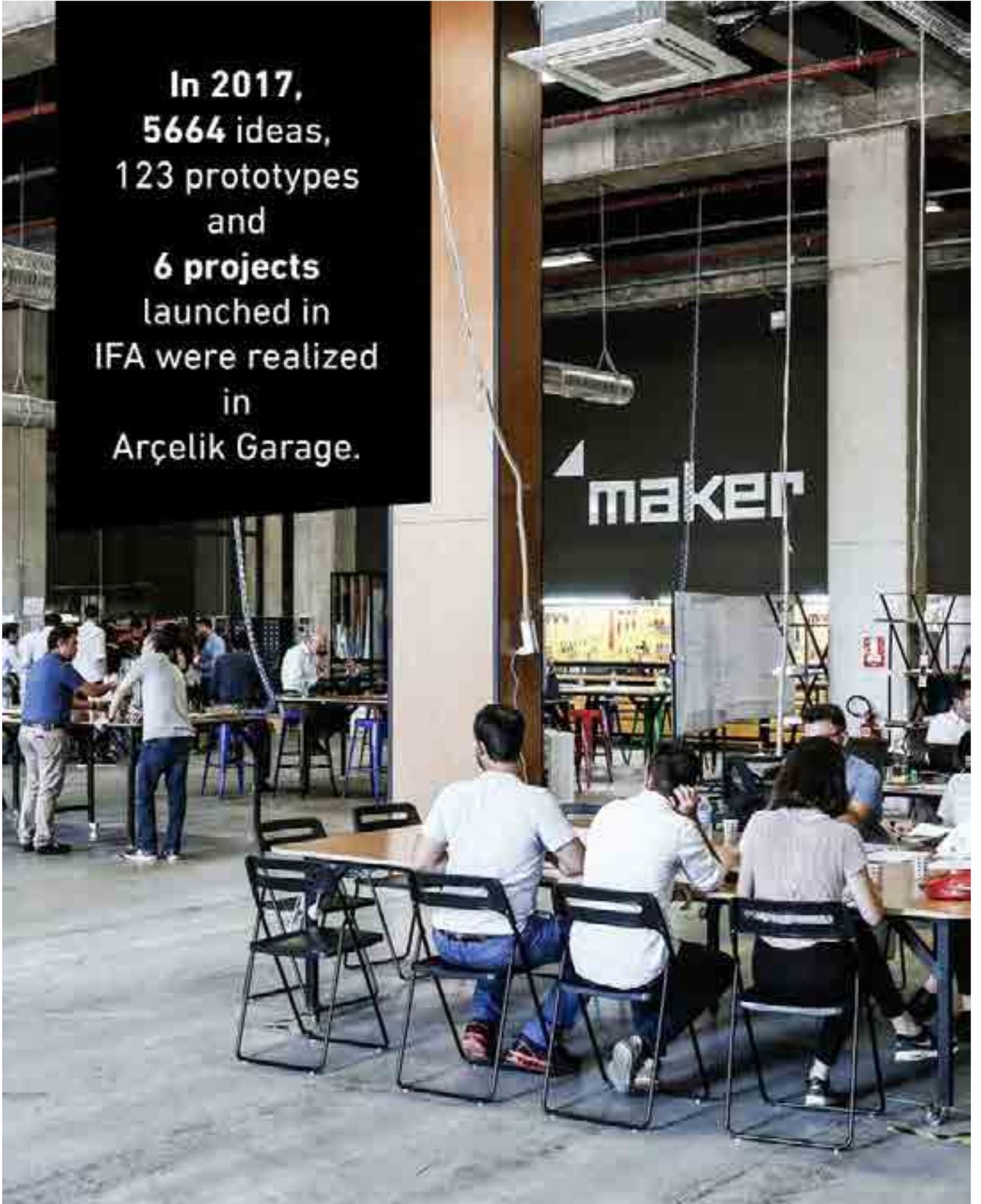
In 2017, Arçelik A.Ş. expedited its activities towards making the existing production systems "smarter", increasing the level of automation and improving human-robot interaction. Successful projects were implemented for developing IT infrastructure that will allow realization of these changes.

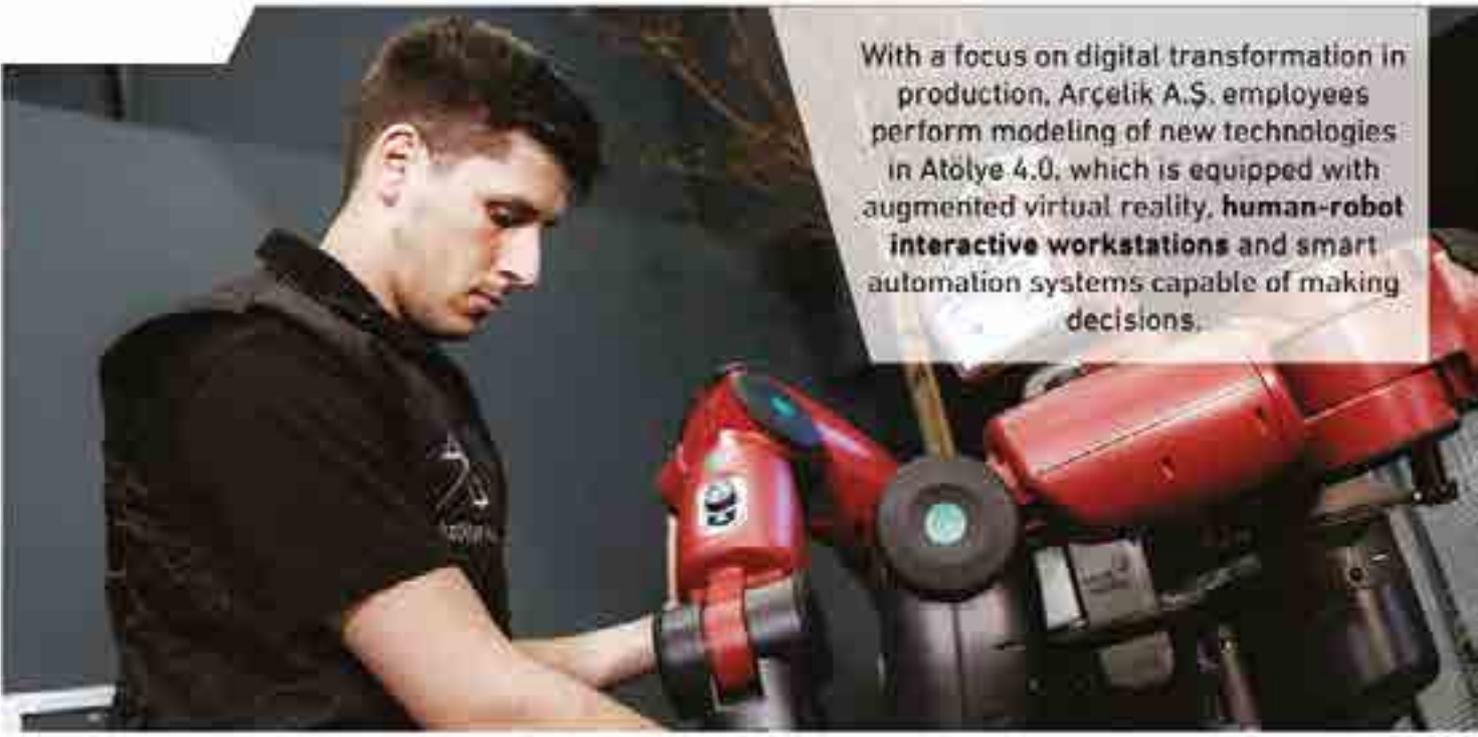
Software and hardware development activities were carried out within the scope of joint projects with universities and private sector that were carried out in Atölye 4.0, which was established in line with this vision. Following are some of the national and international projects that were implemented with private sector, start-ups, technology suppliers and universities within the framework of an innovation ecosystem:

- o Design of "The World's First Projection-Based Wearable Augmented Reality System" with Koç University and Augmency start-up company under Eureka Project,
- o Design of customer-oriented product, service and production network for local markets under "Proregio" project that was implemented within the scope of Horizon 2020 project, which obtained a grant of € 480,000 for a duration of 3 years and has been successfully completed as of December 2017,
- o Development of humanoid robot algorithms that are capable of learning within the scope of "CoMRAd" project funded by EU and jointly implemented with Ozyegin University.

**In 2017,
5664 ideas,
123 prototypes
and
6 projects
launched in
IFA were realized
in
Arçelik Garage.**

maker





Collaborations

Arçelik A.Ş. widens its collaboration network established for R&D and innovation for the purpose of developing technologies at a global scale.

R&D centers that are established in different geographies are aimed at reaching talents in top universities of the world as well as acquiring newly developed technologies at early stages and using them in the design of innovative products for a higher competitive advantage. Arçelik A.Ş., implements joint projects with prestigious universities and research institutions such as MIT (USA), Cambridge University (UK), ITRI (Taiwan); where Arçelik global R&D offices are located. In this context, the project called “Controlling Devices by way of Augmented Reality” was successfully completed in collaboration with MIT (Massachusetts Institute of Technology) Media Lab, one of the leading universities in USA.

Arçelik A.Ş. collaborates with more than 500 universities, research institutions and companies from more than 20 countries in projects that are implemented in various fields such as nanotechnology, innovative material technologies, next generation factories and food storage within the scope of European Union Horizon 2020 program. In addition to 13 Eureka projects completed, Arçelik A.Ş. plays an active role in Eureka platform with 7 projects on progress.

Arçelik A.Ş. is also one of the Platinum members of OCF (The Open Communication Foundation) that has more than 300 members that carry out activities on internet of things.

Arçelik A.Ş. represented Turkey in the opening meeting of MIKTA Innovation Leaders Platform held in Australia. With Turkey being the term president in 2017, MIKTA was established in 2013 under joint venture of 5 countries (Mexico, Indonesia, Korea, Turkey and Australia) among G20 members. MIKTA is an unofficial advise forum that is based on common values and areas of interest in safety, trade, economy, gender equality, sustainable development and energy topics. MIKTA's goals include overcoming global challenges by increasing effectiveness and creating collaboration -based inclusive and dynamic innovation ecosystems; creating a cleaner environment; encouraging participating in wider workforce; reducing inequalities; improving people's lives; and eliminating poverty. The purpose of MIKTA Innovation Leaders Platform is to increase innovation and collaboration among MIKTA members, and encouraging commercialization of new technologies and creative ideas.

14 globally-known academicians and entrepreneurs from USA, Germany, South Korea, Taiwan and Turkey attended the fifth Arçelik R&D Advisory Board Workshop in April 2017.

While developing its own technologies, Arçelik A.Ş. also benefits from the knowledge generated by the leading universities of Turkey. The company carries out public-supported and contracted collaboration projects with many universities nationwide. The presence of Arçelik A.Ş. in R&D ecosystem of technopolis with R&D offices in METU and ITU Technopolis contributes to joint projects carried with both universities and technopolis companies.

Arçelik A.Ş. also carries out joint projects in the field of user-oriented design under Koç University-Arçelik Creative Industries Application and Research Center (KUAR), which was established for the purpose of contributing to the production of Turkish creative industries and obtaining research outcomes that would add value to international competition.

Events



INNOVATIVE PRODUCTS



Double-Door Refrigerator with 700 L Volume

- 83 cm wide A++ refrigerator with the highest volume in its class with a volume of 700 L
- Ability to store fruits and vegetables up to three times more with FullFresh+ feature
- VioLED, a technology that eliminates bad odors inside refrigerator by up to 90%
- Cooling technology that prevents mixing odors between cooling and freezing compartments, and ensures long-term freshness with ideal air flow
- Blue light technology that helps preserving vitamin C contents of fruits and vegetables
- Stylish interior design



VioLED, the refrigerator equipped with the technology that removes bad odor

- 70 cm combi refrigerator
- 454 liter net internal volume
- A+++ energy efficiency
- VioLED, a technology that eliminates bad odors inside refrigerator by up to 90%
- Ability to store fruits and vegetables up to three times more with FullFresh+ feature
- Cooling technology that prevents mixing odors between cooling and freezing compartments, and ensures long-term freshness with ideal air flow
- Blue light technology that helps preserving vitamin C contents of fruits and vegetables



30" Wide Premium Segment Built-in Refrigerator Suitable for North American Market

- 76 cm (30") built-in combined refrigerator with 409 L (16.4 cu-ft) net interior volume
- Energy Star ® compliant for North America
- CustomFresh+ compartment with temperature adjustment between -1 and +2
- Ability to store fruits and vegetables up to 3 times more with FullFresh+ feature
- Cooling technology that prevents mixing odors between cooling and freezing compartments, and ensures long-term freshness with ideal air flow
- Same-face design with special hinge system
- Easy built-in installation with 3 dimensional adjustment mechanism



Combi Steam Oven

- 100% steam cooking
- LCD touch screen for ease of use
- Automatically moving steam tank for user comfort and ergonomics
- Meat probe that ensures the optimum heat for cooking
- 5-level wire rack and 2-level telescopic rail system
- Halogen lighting inside the oven



30" Built-in Oven

- 155 L oven capacity
- LED color touch screen for ease of use
- Meat probe that ensures the optimum heat for cooking
- Special turkey cooking program
- Pyrolytic cleaning feature, internal oven accessories suitable for pyrolytic cleaning



90 cm Next Generation Kitchen Stove

- LED touch screen for ease of use
- Double fan for homogeneous cooking
- Full gas, full electricity (vitro ceramic) and mixed (gas furnace-electricity oven) alternatives
- Blue enamel



Induction Furnace New User-Friendly Interface Projects

- Ability to control each and every furnace cell individually and directly
- Interface with LED illumination
- 15 cooking levels that allow users to make their desired adjustments

INNOVATIVE PRODUCTS



The World's First Washer-Drier with Ionizer Technology

- 8 kg washing and 5 kg drying capacity
- Brushless motor technology
- Providing the users with a solution that refreshes cloths without washing by removing unwanted odors
- Tub cleaning program with ionizer
- Crease minimization function that prevents creasing for up to 8 hours in addition to preventing occurrence of humidity and bad odors in case cloths are left in the machine



Washing Machine with Automatic Liquid Detergent Dosing Feature

- Optimum dosing of liquid detergent automatically in every cycle with detergent dosing system
- Elimination of the need to replenish detergent in every wash thanks to automatic liquid detergent dosing unit
- Elimination of detergent residues and improvement of rinse performance
- Elimination of low wash performance



First Quantum Dot TV Manufactured in Turkey

- 55"-65" screen
- Smart
- Image enhancement technologies:
 - UHD resolution
 - 64 times richer and real-life colors thanks to Quantum Color Gamut technology
 - High Dynamic Range technology that highlights details that are lost in scenes that feature light and dark together
 - Micro Dimming technology that highlights details
- 3-way sound system
- Connectivity
 - Twin Triple Tuner technology that allows viewing two satellite, terrestrial or cable broadcasts at the same time
 - 4 x HDMI
 - 3 x USB
 - Wi-Fi
 - Bluetooth
 - USB recording



TelvePro Turkish Coffee Machine

- Nine cups of coffee in 2.5 minutes
- Taste of coffee as if it was cooked in coal fire thanks to 3 dimensional brewing feature
- 26 different patents
- Rich user experience with additional functions
- Ability to keep cups warm thanks to cup heating plate
- Ability to supply water from carboy or water supply network with automatic water delivery system



Products Accessible by All

Arçelik A.Ş. developed innovative solutions with Six Points Association of the Blind in order to find solutions to challenges faced by the visually impaired in their daily lives. Within the scope of Unimpaired Products project, an audible warning was integrated to vacuum cleaners that operates when bag is full. In this context, the adjustment-free smart iron can be used safely and easily on all kinds of fabrics. Furthermore, the special attachment restricts access to the base of iron, minimizing the risk of harming hands. User manuals of these products were revised so that they became audible manuals with descriptions of images suitable for the visually impaired. Users will easily access audio contents loaded to the website with the QR code on the cover of user manual.

INNOVATIVE APPLICATIONS

Supply Chain

- A total of 36,000 m² warehouse was consolidated under one roof with Ankara Warehouse Consolidation Project.
- Arçelik A.Ş. is entitled to making onsite customs clearance in exports with Authorized Economic Operator Certificate.

Being a global company, Arçelik A.Ş. has launched “Export Logistics Control Tower (ELCT)” portal in 2017, ensuring simultaneous traceability of scheduled and delivered vehicles and products for international affiliates and customers. With the transportation companies integrated with the system, containers can now be easily tracked.

Having commissioned China Product Supply Consolidation Center in 2017, the Company enabled global product availability and eliminated the limitations on lead times, mix loading and minimum production volumes for the selected product ranges. Customers who cannot reach minimum production numbers in direct purchases from the manufacturer will be allowed to order multiple products from multiple manufacturers for full containers. This completed deliveries to 36 countries in 4 continents, ensuring consolidated stock effectiveness and contributing to the global growth of Procured Products range.

Following Eskisehir and Istanbul consolidation centers, Ankara Consolidation Center was opened in 2017. A total of approximately 36,000 m² warehouses in different locations of Ankara were consolidated in one campus with Ankara Warehouse Consolidation Project. This ensures;

- Increased equipment and labor efficiency,
- Minimizing the supply time for improved customer satisfaction,
- Optimization of vehicle capacity use,
- Efficiency from the synergy created by shared use of utilities inside the campus,
- Consolidation of warehouse maintenance, technical support and revaluation operations at a single location for faster services and cost savings.

In 2017, “Automatic Loading-Unloading” systems established by Arçelik A.Ş. between all the operation and distribution warehouses shortened the loading, unloading and dispatch times. Shorter cycle time secured significant savings in transportation and man/day costs. Currently, 14 automatic loaders are being used actively including 6 in Eskisehir warehouse, 4 in Ankara warehouse, 2 in Cayirova warehouse, 1 in each of Cerkez-koy and Bolu warehouses.

Arçelik A.Ş. is entitled to making onsite customs clearance in exports with Authorized Economic Operator Certificate obtained on 6/3/2014. In this context, the requirement to carry out exports operations in predetermined and designated areas was revoked as a result of the Company’s applications to the Ministry of Customs and Trade in 2017, and the company became entitled to making customs clearance for loadings from all export warehouses in the permitted campuses.

Global Purchasing

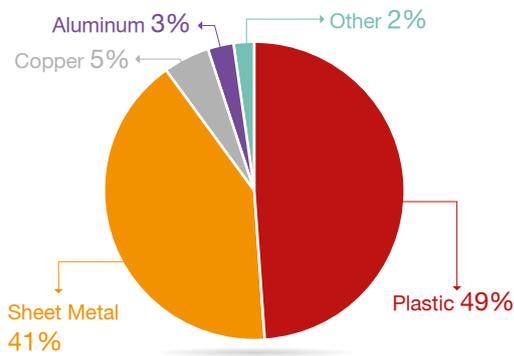
Having been organized in parallel to global needs and expansion of Arçelik A.Ş., production network, Arçelik A.Ş. Purchase Department is a dynamic organization with purchase offices in 8 countries and 200 personnel. Arçelik A.Ş. Purchase Department procures materials directly from 1,800 direct sources in 53 countries and the total purchase volume reached EUR 3 billion with the indirect and investment purchases in 2017.

A category-based purchase organization was established by Arçelik A.Ş. to make use of scale economy and competencies. Category managers specialize in their relevant categories and realize projects that allow cost improvement and create value for the customers. The purchasing organization carefully monitors all factors with a possible impact on costs including the environment regulations, fluctuations in commodity prices, local and global economic developments and changes in customs regulations.

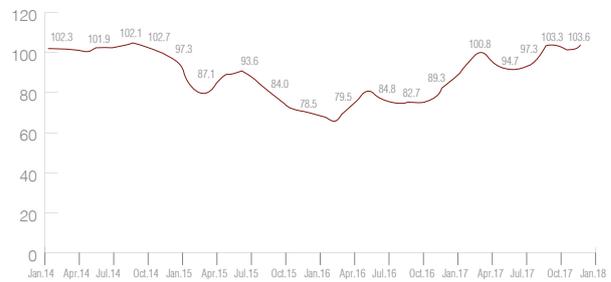
Raw Materials

Having increased in the first half of 2017, raw material prices decreased in the 3rd quarter but started to increase again in the last quarter. Arçelik A.Ş. purchase strategy is established so as to receive the minimum impact from the increases by monitoring the fluctuations in commodity markets and as a result of flexible and long-term connections. In addition, competitiveness of total purchasing costs was maintained by increasing purchases from low-cost regions, adding alternative sources of supply to the system and implementing additional consignment procedures.

Distribution of Raw Material Purchases 2017



Market Raw Material Index



* The reference market index is 100 as of 2011 December.

Responsible Purchasing

Arçelik A.Ş. became a member in European Committee of Domestic Equipment Manufacturers (CECED) in 2005, and is also one of the first companies that signed Corporate Social Responsibility Code of Conduct created by CECED. Arçelik A.Ş. is a part of Koç Group, which has signed the United Nations Global Compact, and has certain expectations from its suppliers within the frame of its responsible purchasing policy. These are:

- Unconditional compliance with business ethics rules in line with its working conditions,
- Declaring the business ethics rules to the employees and ensuring that they duly care about these rules,
- Business ethics rules are readily available for all employees.

Arçelik A.Ş. responsible purchasing policy is available for the suppliers on Arçelik Supplier Portal (www.supplier.arcelik.com) and the corporate web site of Arçelik A.Ş. (www.arcelikas.com/sayfa/866/Is_Etigi)

Conflict Minerals Project

Arçelik A.Ş. has started the “Conflict Minerals” project in 2016 within the scope of responsible purchase principles and continued the project in 2017. In 2017, Arçelik established Conflict Materials Management System, sent 3TG utilization questionnaire to all relevant suppliers and evaluated the responses within the scope of project. Also, 5 suppliers (one of which was in 2016) were subjected to onsite auditing by an independent organization within the scope of the some project.

INNOVATIVE APPLICATIONS

Supplier BTP (Business Transparency Project) Program

CIPS (Chartered Institute of Procurement & Supply) that evaluates the best purchase practices in Europe ProcureCon gave the grand prize of “Best Contribution to Corporate Responsibility” to Arçelik A.Ş. for its Business Transparency Program within the scope of Supply Management Awards organized in Berlin in October 2017. The program that brought the grand prize to Arçelik A.Ş. ahead of many big international companies is being implemented for the purpose of raising awareness on sustainability among Arçelik A.Ş. suppliers.

Projects under the “Best Contribution to Corporate Responsibility” are evaluated in terms of social, ethics, environmental, sustainability and social initiative criteria. Evaluations are based on the role of project on enhancing the company’s reputation and brand value in terms of supply chain management.

Having started under support of GRI (Global Reporting Initiative) and completed in 2016, BTP (Business Transparency Project) project involved in making 12 suppliers issue sustainability reports with the purpose of increasing corporate sustainability performances of these suppliers, ensuring they reach to a level that they can implement sustainability reporting, and introducing them at an international scale.



Supplier Innovation Program

In 2017, Arçelik A.Ş. implemented “Innovation Program Workshop” twice in a joint organization with Arinkom TTO and in cooperation with Arçelik-Supplier-Anadolu University. The workshop was held in Arçelik Garage (the next generation R&D Center of Arçelik) with the participation of Arçelik A.Ş. purchase department, supplier representatives, Anadolu University academics, Arçelik A.Ş. R&D employees, officials and ARINKOM TTO team. The event was organized for the purpose of strengthening innovation skills of suppliers and developing projects by “Arçelik-Supplier-Researcher” trio. A total of 160 participants undersigned more than 400 ideas and 28 presentations were delivered within the scope of event.

Furthermore, innovation and technology days were organized to allow the suppliers share their suggestions, ideas and product roadmaps with the Company.

Purchasing Academy

Purchasing Academy program which continued in 2017 aims at equipping Arçelik Purchase Department employees with the knowledge and skills they need and increasing their level of awareness. The program that covers local and foreign purchase personnel is implemented with the support of Koç University and CIPS (Chartered Institute of Procurement and Supply), an internationally accredited company specialized in foreign purchasing. In 2017, a total of 81 people received training and 12 people graduated from the program.





Supplier Improvement Activities

Primary purpose of Arçelik A.Ş. Purchase Department: increase production of quality products and establishing a portfolio of effective suppliers that carry out continuous improvement activities and create synergy for shortening the operational cycle time. Arçelik A.Ş. Purchasing is also focused on cooperating with the suppliers based on mutual trust and an approach of shared objectives. In line with this vision, Supporting Industry Development Department continued its efforts to improve the infrastructure and technical competences of suppliers in 2017 and visited a total of 1082 suppliers to provide assistance.

Arçelik A.Ş. believes that an important aspect of supplier improvement is the training provided to the suppliers. In line with this approach, Arçelik A.Ş. has provided 232 participants with 18 training sessions focusing on TPM, energy efficiency, plastic based paint, water based paint, rubber and its derivatives, quality, production technologies and production efficiency, reaching to a total of 1224 man/hour of training in 2017.

Furthermore, efficiency projects organized with the suppliers provide shared benefits and improve the quality performance of the suppliers. In 2017, 156 projects were implemented with 108 suppliers. 35 of the projects were for increasing the automation and labor efficiency and 38 of them provided savings in labor costs.

238 projects were implemented with suppliers in 2017 within the scope of sustainability. 62 of them were energy projects. The said projects resulted in total energy savings of 600 TEB.

Also, process inspections were carried out with 30 suppliers and 182 product inspections were carried out within the scope of Supply Chain Directorate Supplier Development Action Plan in 2017. Furthermore, 99 quality improvement projects, 46 design change projects and 29 cost improvement projects were implemented. Additionally, 6 MTM (Methods-Time Measurement) projects were completed with the aim of improving effectiveness and production capacities of suppliers.

Moreover, the most important element of Arçelik A.Ş.'s Performance-Focused Supporting Industry Management is the supplier awards system. In this context, 10 suppliers were granted with performance awards and 3 with special awards in 2017.

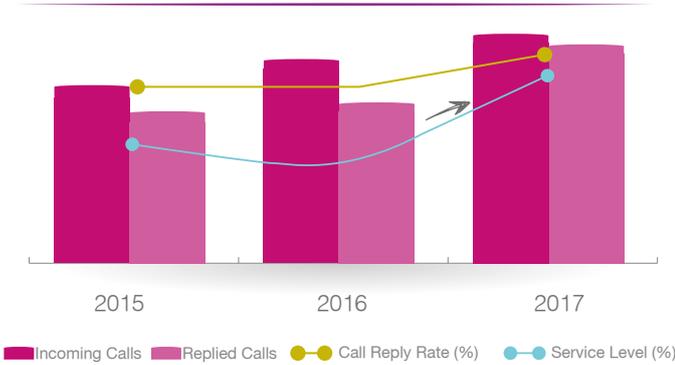
INNOVATIVE APPLICATIONS

Consumer Services

Operating under the principle of providing customers with excellent service experience, Arçelik Call Center has won the “Best Call Center”, “Best Customer Services” and “Best Customer Loyalty Program” awards in Contact Center World contest held in London in October 2017.

In 2017, the company commissioned “Consolidation of Authorized Service Calls” project within the scope of Omnichannel Digital Transformation and started to reply authorized service calls at the Call Center. The said project resulted in meeting 97% of customer requests, and reaching Service Level goal of 83%.

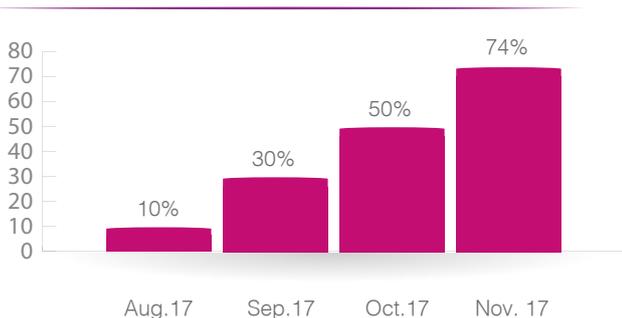
2018 Goal 20 Million Calls



Before and after sales Call Center service is offered for all Arçelik A.Ş. brands in Germany and Austria. In 2017, Call Center operating hours were expanded in order to provide higher quality interactive services to Beko Germany customers.

For the purpose of centralized management and standardization of customer’s product replacement requests, 74% of the replacement organization was centralized under Call Center.

Centralization of Product Replacement Operation

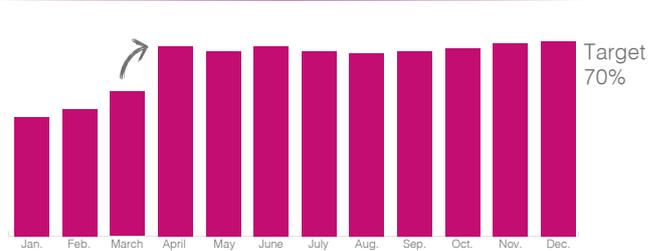


In 2017, Arçelik Call Center started to provide an unparalleled customer experience by offering personalized solutions at Customer Request Center. Also, Call Center Process Units were established for Call Center process optimization and automation.

Furthermore, management of 1 million calls were outsourced to two external companies, resulting in 33% reduction in Call Center costs. As a result of conducting after sales services for cash registers from the Call Center, an increase in income was obtained by issuing 30% more invoices to the contracted banks when compared to 2016.

Within the year, Arçelik A.Ş. consumers in various countries such as Cyprus, Tunisia and Jordan were contacted to obtain their feedbacks on brands and services.

2017 Call Center NPS Score



In 2017, telemarketing operations contributed to turnover by more than 4 times when compared to the previous year as a result of cooperation with CRM Management, fewer employees and personalized campaign offerings in line with customers’ expectations and needs. Also, extended warranty sales to customers started with the virtual POS pilot project in Call Center.

Arçelik Call Center aims at becoming a profit center from a cost center in 2018 through new business models such as Salesforce, Advanced Customer Loyalty Programs, 3rd Line Support to support technicians; Call Center Self Services and flexible IVR applications.

In 2017, Consumer Services Directorate provided field service with 12,800 personnel (including 6,000 technicians) and 5,650 vehicles in 607 authorized services operating under the authority of 12 Regional Managements throughout Turkey. Authorized services provide approximately 15 million services annually for all the brands of Arçelik A.Ş.

World's Number One in “**Best Call Center**”, “**Best Customer Services**” and “**Best Customer Loyalty Program**” categories

33% reduction in Call Center costs

Approximately **15 million service** activities annually

Number of Arçelik A.Ş. authorized services entitled to “**Customer Friendly Business**” (MDK) certificate from TSE: **44**

A total of 335,000 man/hours of training to **9500 authorized service** employees

16,494 man/hours of technical trainings to **1698 people** in **36 countries** within the scope of “**International Academy**”



Operating with the vision of unparalleled customer experience and reliable service, Consumer Services Directorate adopts the principle of maintaining the highest level of satisfaction through activities related to consumers.

In 2017, 44 Arçelik A.Ş. authorized services were entitled to “Customer Friendly Business” (CFB) as a result of inspections carried out by the Turkish Standards Institute (TSE). In the second phase of project, “Arçelik” and “Beko” brands of Arçelik A.Ş. were entitled to “Customer Friendly Brand” (CFB) as a result of inspections carried out in the concerning departments.

Authorized services hire employees that are subject field experts, comply with standardized clothing, hygiene and courtesy rules, have the necessary technical background and skills, and are regularly inspected.

The quality of service provided to consumers is regularly measured by using NPS (Net Promoter Score) method, and corrective and preventive actions are taken according to the feedbacks received.

After sales service processes are certified with “ISO 10002 Customer Satisfaction Quality Management System Certificate”.

Authorized service technicians are trained and certified by TH Technical Training Unit. In 2017, a total of 335,000 man/hours of training were delivered to 9500 authorized service employees. In addition to hands-

on training methods and training modules based on personal measurements, individual-based training management system was employed, which suits new training science technologies.

Technical support and training activities in all countries of sale are conducted under Consumer Services. Technical support activity has been conducted for 23,000 domestic model products and 47,000 foreign model products that are sold by years. Being established for international service trainings, the “International Academy” delivered 16,494 man/hours of technical trainings to 1698 people in 36 countries.

On the other hand, international academy formation process is still on progress. In this context, Thailand Academy and South Africa Defy Academy were established under the Central Academy. Technical feedbacks on products are now collected on an international platform with the “business desk” interface program taken online within the scope of international technical support process.

Arçelik A.Ş. Spare Parts Management provides services for our customers with 236,000 different spare parts in total. Each year, spare parts range is increased by about 17,500 units. Cloud-based Microsoft Machine Learning software was deployed for better management of the planning for increasing number of product variety.





Corporate Responsibility



Knowing its responsibilities, Arçelik A.Ş. works hard to leave a more livable world to future generations and its guide to fulfilling these responsibilities combine the corporate vision, culture, values and ethics. Arçelik A.Ş. puts environment and people in the focus of its activities and its services and practices that were realized in line with this were recognized and awarded by many national and international institutions.



ENVIRONMENTAL APPROACH TO PRODUCT AND PRODUCTION



The only **Turkish industrial company** that entered in Dow Jones Sustainability Index in 2017.

One of the **25 global companies that entered in Global A List** of both climate and water program of Carbon Disclosure Project - CDP.

Having participated in “**Science Based Targets**” initiative developed under partnership of **CDP, UN Global Compact, WRI** and WWF, Arçelik A.Ş. undertook to determine its targets for greenhouse gas emission reduction on the basis of scientific data, and to reduce its emissions accordingly.

A significant contribution to **circular economy** as a result of recycling **6.6 million** used plastic bottles annually thanks to washing machine drum made of plastic bottles.

Grand Prize for Bolu Cooking Appliances Plant with Heat Pump Project within the scope of the contest for Increasing Energy Efficiency in the Industry Projects organized by Turkish Ministry of Energy and Natural Resources.

In line with its vision of “Respects the Globe, Respected Globally”, Arçelik A.Ş. aims to protect the environment and natural resources and make them sustainable with its energy-efficient products and environment-friendly operations.

Pursuing the goal of contributing to the world’s sustainable future through energy-saving products that are developed on the basis of sustainability and efficiency, Arçelik A.Ş. constantly reduces the environmental impact of its products through R&D activities. Environment-friendly, innovative and differentiating products of Arçelik A.Ş. also provide an important competitive advantage.

With energy efficiency projects and practices, Arçelik A.Ş. minimizes environmental impacts of its production processes and gains significant savings in energy costs.

Arçelik A.Ş. performs its business processes in accordance with international product and management standards; primarily the ISO 14001 Environmental Management System which is integrated

with the ISO 9001 Quality Management System and ISO 50001 Energy Management System. The efficiency and sustainability of Arçelik A.Ş. management systems are guaranteed through regular Internal System Audits in addition to audits conducted by internationally accredited independent organizations.

Emissions resulting from production activities of Arçelik A.Ş. have been calculated in accordance with ISO 14064-1 standard since 2010 for Turkey operations, 2015 for Romania plant and 2016 for Russia plant, and verified by an accredited independent organization at “reasonable assurance” level.

Arçelik A.Ş. has been calculating the greenhouse gas emissions resulting from its logistics activities since 2013 and have them verified in accordance with ISO 14064-1 Standard. In this context, -the greenhouse gas emissions resulting from domestic and import & export logistics operations of Arçelik A.Ş. products in 2016 were also verified by an accredited independent organization at the “limited assurance” level.

Arçelik A.Ş. started working on building solar energy plants with different technologies to be used in national and international plants within the scope of 2020 energy goals. Plants are planned to be commissioned in 2018 with a total installed capacity of more than 2MW.

Operating under responsible manufacturer principle, Arçelik A.Ş. launched green purchase campaign. In this context, Arçelik's green purchase policy and procedures are being determined.

Combating Climate Change

Arçelik A.Ş. also supports national and international activities for combating against climate change.

Arçelik A.Ş. develops solution-oriented international collaborations within the scope of combating against climate change, and supports all actions, policies and guarantees in this field. Having been a part of CDP, the world's biggest climate change initiative, since 2012, the Company participates in Global Climate Conferences and shares its best practices in the panels since 2011.



ENVIRONMENTAL APPROACH TO PRODUCT AND PRODUCTION

Compliance with National and International Environmental and Energy Legislations

Arçelik A.Ş. continuously monitors its compliance with all legislations that it is obligated to comply throughout the product life cycle. "ISO 14001 Environmental Management System" and "ISO 50001 Energy Management System Standard" are used as the basis for monitoring the compliance with the legislations.

To comply with WEEE Directive in EU countries, Arçelik A.Ş. fulfills its legal obligations through the mechanisms of collection and recycling. The Company is also a member of many systems which provides services for the collection and disposal of products at the end of their life cycles. In addition, Arçelik A.Ş. also fulfills its obligations under the Regulations on Controlling Waste Electrical and Electronic Equipment (WEEE).

In 2014, Arçelik A.Ş. established two recycling plants in Bolu and Eskişehir. The Company managed to minimize the environmental impacts during the product life cycle. The recycling plant in Eskişehir is the first recycling plant in Turkey which meets all technical requirements required for the plants to operate refrigerator/coolers/air conditioners and which has the ability to collect the CFC (chlorofluorocarbon) gases harmful to the ozone layer that exist in old refrigerators through closed system.

WEEE recycling plants of Arçelik A.Ş. and their contribution to circular economy were mentioned in "Can UK businesses truly realize the potential of the circular economy?" article published in Guardian Sustainable Business.

Arçelik A.Ş., also complies with 2011/65/EU RoHS Recast Directive that superseded 2002/95/EC directive, which envisages limitation of certain harmful substances in electrical and electronic goods.

The Company adopts and supports REACH Regulation as one of the most important legal procedures to protect the environment and human health as the Regulation aims to ensure the flow of necessary chemical safety data of all chemical substances from their manufacturer to the user and the availability of this flow to the consumers. At Arçelik A.Ş., REACH practices are monitored by an expert team.

Carrying out all activities by respecting the environment, Arçelik A.Ş. uses environment-friendly hydrocarbon refrigerants that do not harm ozone layer and has minimum impact on global warming for refrigerators manufactured in its plants.

Energy efficiency criteria for vacuum cleaners were updated and minimum mandatory requirements were increased with the Vacuum Cleaner Energy Regulations since September 2017. "A-G" energy level was changed as "A+++ - D". Annual energy consumption was limited to 43kWh/year with upper limits of 900W motor power and 80dBA noise level. Limit values for dust collection and removal were increased when compared to the previous regulations. Lower limits were defined for motor and hose life cycles. Arçelik A.Ş. also fulfills its regulatory obligations.

Being a member of the "global" United for Efficiency (U4E) project implemented under leadership of UN Environment and Global Environment Facility (GEF), Arçelik A.Ş. also supports efforts towards increasing energy efficiency of home appliances in developing countries, implementation of energy policies and enforcement of test standards and regulations.

Having signed a cooperation agreement with Sustainable Energy for All Initiative (SEforALL), Arçelik A.Ş. participated in COP23 and delivered speeches in the "global generalization of energy efficient devices" panel organized under "United For Efficiency" project and the panel organized by Turkish Ministry of Environment and Urban Planning.

Arçelik A.Ş. employs engineers with an "Energy Manager Certificate" at its plants which exceed the specified energy consumption level in line with the Energy Efficiency Law. Many energy efficiency projects are carried out every year under the coordination of the energy managers and production-based energy consumption is continuously reduced by the Company. Furthermore, energy consumption data are officially submitted in March.

ENVIRONMENTAL APPROACH TO PRODUCT AND PRODUCTION

Supply Chain

Arçelik A.Ş., as a responsible manufacturer, puts significant efforts on climate change.

The Company measures the emissions resulting from product transportation since 2013. In this context, the greenhouse gas emissions resulting from domestic and import & export logistics operations of Arçelik A.Ş. products in 2016 were also verified by an accredited independent organization at the “limited assurance” level.

Arçelik A.Ş. effectively manages greenhouse gas emissions. The use of maritime lines for exports was at 81% within the reporting period. The Company also reduces emissions by using railways instead of road transportation to the extent possible.

By the effective use of Dynamic Routing application in Turkey, Arçelik A.Ş. has maximized vehicle utilization through internal transportation route studies to ensure optimum route planning. These practices decreased the costs and reduced carbon emissions.

Furthermore, inefficient lighting in product storage was replaced by new generation lights to save energy. Inefficient chargers of forklift batteries were also replaced by efficient ones for energy savings.

Consumer Services

“Dynamic Routing” system used for delivery of spare parts to final consumers resulted with savings in transportation distance and the reduction of fuel consumption.

Delivery of products from “Dealer Shared Warehouses” and provision of assembly services during the delivery have also provided fuel savings.

Arçelik A.Ş. offers Commercial A/Cs through 131 services throughout Turkey. Within the scope of this service, specific needs of chain stores and corporate customers regarding exploration, installation, maintenance and supply services are met.

As of 2017, Commercial A/C Services started to provide systems capable of meeting air-conditioning requirements up to 3000 kW. Arçelik A.Ş. added the fan coil, A/C and chiller groups to its product portfolio. Therma Green (heat pump) product group for detached houses and wall-type boilers as well as Grundig luminaries were added to the product portfolio.

Arçelik A.Ş. Consumer Services carry out necessary works along with company’s internal stakeholders to fulfill the obligations within the framework of Waste Electrical and Electronic Equipment Regulations.



ENVIRONMENT-FRIENDLY PRODUCTS



40db Dishwasher with Prosmart Inverter Drain Engine Technology

- Use of BLDC (prosmart inverter) engine technology in drain engines of dishwashers in addition to circulation engines
- 40 dB acoustic level thanks to BLDC drain engine
- A+++ high energy efficiency
- 15-people capacity
- Standard & Talltub – Solo/semi built-in/undercounter/full built-in product portfolio



A+++ Chest Freezer Refrigerator

- 523 liter net internal volume
- Ability to store fruits and vegetables up to three times more with FullFresh+ feature
- Cooling technology that prevents mixing odors between cooling and freezing compartments, and ensures long-term freshness with ideal air flow
- Blue light technology that helps preserving vitamin C contents of fruits and vegetables
- Odour filter system preventing bad odour
- Elimination of smells inside the refrigerator with the lonizer technology providing negative ions
- Automatic ice machine

New Generation Compact Inverter Compressor with High Energy-efficiency

- A more compact inverter compressor with the new BLDC engine design
- Inverter card design with VDE safety certification, in accordance with Class D Harmonic Standard
- Low noise level
- Fast cooling capacity
- A reduction in the compressor's weight with the new compressor kit design
- 30% less cost compared to equivalent products



Washer/Dryer with a Boiler Manufactured of Recycled Material

- Boiler manufactured of recycled material rather than plastics
- Annual use of 250 tons of recycled raw material equivalent to 25,000,000 PET bottles
- Optimal washing and drying performance



Tornado Eco-Champ First A+ Vacuum Cleaner

- Turkey's first A+ (A-25%) vacuum cleaner with an annual energy consumption of 20 kWh
- Strong 195W suction with a 600W efficient motor
- A+CAA energy label
- Minimum 59 dB, maximum 65 dB noise level, lowest noise level in Arçelik product portfolio
- 350 grams of less metal raw material used per product
- ECARF (European Centre for Allergy Research Foundation) Quality Certification with no allergenic effects



S 4990 First 4A Vacuum Cleaner

- First 4A design in Arçelik's portfolio of products with bags
- First Arçelik product in A energy class with a suction power exceeding 250 watts thanks to the efficient flow system design
- First product with an A dust collection level on solid surfaces and carpets
- The most efficient air flow system design (38%) in its class

Efforts to reduce packaging waste

Shrink wraps used for Vacuum Cleaners were cancelled in an effort to reduce packaging waste. Package dimensions were reduced in the Home Appliance group and materials with a higher rate of recycling were introduced.

SOCIAL RESPONSIBILITY



867 students were graduated from 9 Arçelik Laboratories, 64 teachers were trained for 21,200 man/hours, 157 students were employed by Arçelik A.Ş. Authorized Services.

Arçelik A.Ş. signed **Women's Empowerment Principles (WEPPs)** of the United Nations.

From 2015 to 2017, 16,330 employees received "I Support Gender Equality" awareness training.

Arçelik became the **Main Sponsor of National Football Teams** in cooperation with the **Turkish Football Association**.

Grundig continues to draw attention to food waste on a global scale through "Food For Soul" and "Feed Your Soul" projects with its Respect Food Initiative.

Beko started the initiative "Eat Like a Pro" in collaboration with **FC Barcelona** in an effort to draw attention to obesity and healthy child nutrition on a global scale.

Social Responsibility

Arçelik A.Ş. is engaged in many social responsibility activities in line with the mission of sharing its gains with the society and creating a more livable world for next generations. Arçelik A.Ş. does not compromise from its values and ethical principles while fulfilling its social responsibilities.

Arçelik A.Ş., committed to United Nations Sustainable Development Objectives (SDG), develops long-term collaborations with the public institutions and NGOs in its areas of operation in line with the "Collaborations for Objectives" initiative and adopts a multi-stakeholder model applicable for social development projects from the design to the implementation phase. The Company, committed to develop solutions to social issues, focuses on a number of areas including "Social Gender Equality", "High-quality Education" and "Responsible Consumption and Manufacturing."

Social voluntariness is one of the core values of Arçelik A.Ş. In addition to creating new job opportunities locally, production plants, sales and marketing offices of Arçelik A.Ş. operating in different countries also carry out social responsibility projects and support activities to contribute to the social development of their regions. The Company adapted maintaining the sustainability of the projects with the contribution and local embrace that will be provided by the volunteers composed of the large family of Arçelik A.Ş. as a significant success criteria.

Education - Development

Arçelik A.Ş. believes that the greatest added value in terms of social improvement is generated by the activities in the field of education.

Turkey

Electrical Household Appliances Technical Training Program - Arçelik Laboratories

Arçelik A.Ş. developed “Arçelik Electrical Household Appliances Technical Service Program” in order to reinforce the connection between professional training and employment, and to raise manpower with knowledge about the most recent developments and emerging technologies in Turkish electrical household appliance industry.

For this, the Company has implemented an industry-first in Turkey under Electrical Household Appliances Technical Service Staff category for establishing and maintaining training - employment relationship. The aim is to educate the students to a level that enables them to serve as technicians under white goods and air conditioner product groups with the knowledge they obtained in Arçelik Laboratories.

Within the scope of the program implemented in collaboration with the Ministry of Education, Professional and Technical Education General Directorate, Arçelik Laboratories equipped with state-of-the-art measurement devices and equipment related to electrical household appliances technical service were established. The first phase of the program was completed from 2011 to 2014 and the second phase covers 2015 to 2019.

The program started at 4 vocational schools in 2011-2012 semester and expanded to nine vocational schools in Istanbul, Diyarbakır, Trabzon, İzmir, Ankara, Bursa and Tatvan in 2015-2016 semester. The number graduates of the program was 115 in 2013, 112 in 2014, 208 in 2015, 216 in 2016, and 216 in 2017. In 2017-2018 semester, 337 students are educated in these departments including 156 11th graders and 181 12th graders. As of the end of 2016-2017 semester, the total number of graduates reached 867 and 157 of them were employed by Arçelik A.Ş. Authorized Services based on their requests.

Within the scope of the project, “Technical Education Manuals” were drafted to provide access to up-to-date technical knowledge and skills for 3,500 students of Electrical Household Appliances Departments in Turkey in 2017 to meet the demands of the industry. The manuals were drafted by Arçelik Academy trainers on refrigerators, deep freezers, washing machines, dishwashers, dryers, ovens, stoves, hoods, water heaters, combined devices, air conditioners and computers. The manuals were delivered to the province/district/branch managers, vocational schools, lifelong learning institutions, school managers and technical teachers by the Ministry of Education via digital platforms.

Trainer and student trainings within the scope of the program are managed by Arçelik A.Ş. Retail Development Directorate, Consumer Services Technical Training-Turkey department in line with the contents of Arçelik Akademi Training Program.

At Arçelik Electrical Household Appliances Technical Service department, 64 technical trainers provided 21,200 man/hours of technical training since 2011. The training programs continue as needed.

Arctic Romania

Arctic actively supports the education activities to help increase the pace of social development in Romania.

First Dual Education Classes in Dambovita-Nicolae Ciurinescu Technology School

Arctic supported the first dual education classes in Dâmbovita in 2017. The project started with 56 students to support the development of new generation of technicians and will be expanded in the years to come. Graduates of the Arctic classes will be equipped with Industry 4.0 skills and able to adapt to new technologies. They will have priority for employment at the new washing machine plant in Ulmi. The students will also have the opportunity of internship at Gaesti and Ulmi plants and mentorship from the experts at the company for three years. Students enrolled at the program will be qualified as operators or electronic operators at the end of three years. Arctic offers scholarship to the students in addition to theoretical and hands-on training.

Special Scholarships for Students

Arctic also initiated a special scholarship program to support the third and fourth year, master and doctorate students of technical specialist programs at Politehnica, Pitesti and Valahia Universities in the 2017-2018 semester.

First Cooling Systems Class - Gaesti

Arctic provides technical materials, educational materials, research and development support to many high schools and universities. In 2017, Arctic continued to support the Cooling Systems Operator Class opened at Gaesti Vocational High School.

SOCIAL RESPONSIBILITY



Gender Equality

Arçelik A.Ş. also aims at contributing to raising awareness on social gender inequality and to developing an equalitarian approach in business and social life with an integral approach.

Arçelik A.Ş. signed UN Women's Empowerment Principles (WEPs)

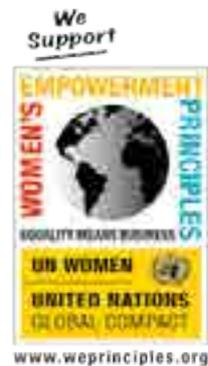
Social gender inequality is among the top issues of the sustainability strategy of Arçelik A.Ş. Article 5 of the United Nations Sustainable Development Objectives, which calls for gender equality and empowerment of women and girls, defines gender equality as a basic human right. The Company aligned its sustainability roadmap with the United Nations' 2030 Sustainable Development Objectives and signed Women's Empowerment Principles (WEPs) in 2017.

Women's Empowerment Principles (WEPs), which was formed by the United Nations Global Compact, United Nations Social Gender Equality and Women's Empowerment units, define a roadmap for the companies to support the position of women in business life and the society. So far, 1661 leading international companies signed WEPs. Having signed the Women's Empowerment Principles, Arçelik A.Ş. aims to develop specific projects to raise public awareness on the issue.

I Support Gender Equality In My Country - Turkey

In accordance with an approach of global citizenship, Koç Group creates shared values with "My Country" projects to act in cooperation and collaboration to solve social issues.

Arçelik A.Ş. Family supports Koç Holding's "I Support Gender Equality in My Country" project. The purpose of the project is to create awareness on the reasons and consequences of gender inequality and develop an egalitarian approach in culture and social life as a role model.





• Information Seminars for Employees

Within the scope of “I Support Social Gender Equality in My Country” project, voluntary company representatives were trained for a raised awareness on social gender equality through “Information” seminars in coordination with AÇEV. Volunteers qualified as trainers at the end of the seminar will inform all employees of the company on this issue. 30 employees of Arçelik A.Ş. were assigned as voluntary trainers as a result of these trainings.

In 2017, 88 awareness seminars were conducted in 8 campuses in Turkey and awareness trainings were given to a total of 3,840 employees. A total of 16,330 employees were trained through the seminars from 2015 to 2017. 509 people were trained in 2017 through trainings for authorized dealers and services. Since 2015, a total of 1,228 people were trained.

• Voluntary Dealer Trainings and Regional Activities

Arçelik A.Ş. Arçelik A.Ş. Dealers continued to support “I Support Social Gender Equality in My Country” project in 2017. Dealer processes are conducted in two main phases. In the first phase, a meeting was held with all dealers that represent Koç brands in the cities with the purpose of turning them into owners of project. Informative seminars were held with ambassador dealers who volunteered in Zonguldak, Adana, Muğla, Düzce, Gebze, Şanlıurfa, Adıyaman, Afyon, İzmir, Samsun, Antalya, Sinop, Manisa, Ankara, Eskişehir, Aksaray, Kütahya, Malatya, Elazığ, Erzurum, Mersin and Çanakkale. In the second phase, informative seminars were held in collaboration with Turkish Family Health and Planning Foundation (TAP Foundation) at preliminary schools, universities and professional associations. Furthermore, local projects are conducted through the dealers.

SOCIAL RESPONSIBILITY

Arçelik A.Ş. Family and Volunteerism

Arçelik A.Ş. supported many social responsibility activities in 2017 through voluntary efforts of its employees and product donations to support social development.



Beko Poland

• Michael Nowicki Wis a Run

Beko Poland supports “Michael Nowicki Wis a Run” charity campaign that aims to raise PLN 1 million for Adam, a child who was born on September 12, 2016 with certain birth defects including the lack of a thumb. Being the center of charity campaign, Michael Nowicki runs average 10 hours a day and raises awareness on the campaign by covering a total distance of 1145 kilometers.

• Triathlon Events

Beko Poland has sponsored a number of triathlon events in various parts of Poland including Triathlon Tri Series and Garmin Iron Triathlon for almost 10 years. In 2017, Beko Poland sponsored 17 triathlon events. These events were covered by the local press and TV channels, and Beko employees and partners participated in some of them.

• Border Marathons

For the first time this year, Beko Poland sponsored 4 stages of Border Marathons, a series of MTB cycling events in Eastern Poland. This event helped raise public awareness on the culture and natural beauties of the region.

• Other Sports Activities

Beko Poland supported a number of other sporting events in line with principle of supporting sports and athletes. These are:

- 3rd Beko Children's Football Cup with 15 teams,
- Warsaw Masters Team that organizes swimming championships,
- The hot-prospect speedway racer Pawe Przedpeski,
- Beko Dance Cup with 50 participants including Poland's well-known dancers.

• Supporting Local Communities

Beko Poland attends various events related to national holidays and celebrations every year. In this context, Beko Poland visited 10 cities in 2017 and introduced many children to fun activities.

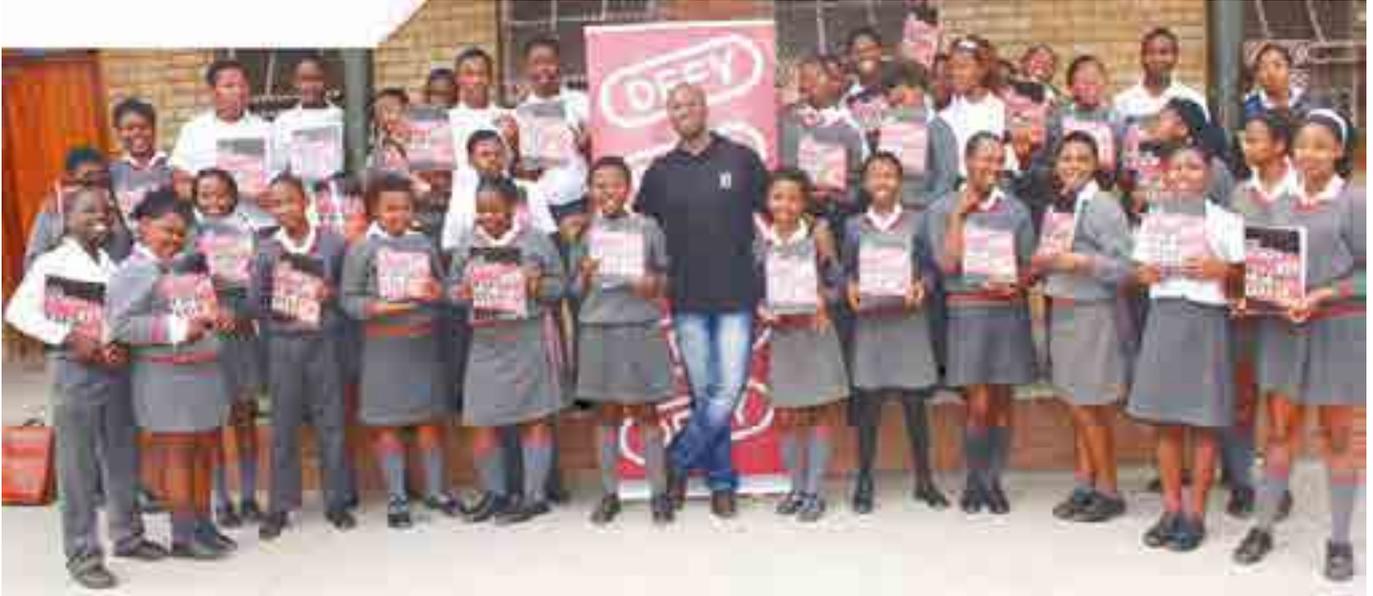
Beko Spain

• Una Sonrisa por Navidad (A Smile for Christmas)

International Cooperation, an NGO, organizes a volunteering campaign under the name “Una Sonrisa por Navidad” every year. This organization carries out 200 charity events in Spanish cities including Barcelona, Madrid, Seville, Zaragoza, Valladolid, Santiago, Valencia, Gijón, Santander, A Coruña and Alicante with the participation of hundreds of young volunteers between mid-December to January 5. The aim of the campaign is to encourage young people to support the needs of the cities and people living in these cities, and raising awareness on the issue. 8000 people benefit from the activities conducted within the scope of “Una Sonrisa por Navidad” every year thanks to the attendance of hundreds of young volunteers as well as the support of businesses and institutions. Within the scope of the campaign, Beko provided Christmas gifts for children and donated cash to the food bank.

• Supporting Red Cross

Beko Spain helps those in need, contributing to creation of a better and more fair world through collaboration with the Red Cross. Beko also provides financial support to the corporate magazine of the Red Cross.



• Associació Esquitx

The Open Center is a day-care center in Barcelona that supports the development of personalities and social skills of children after school time, carries out protective activities and encourages children to learn how to improve their weaknesses. The center is focused on children from 5 to 13, young people and their families. Beko Spain supports the institution by donating refrigerators, freezers, washing machines, etc. needed by them.

• Santa Inés Association

Santa Inés is a social institution that gives food twice a day to the homeless and other people in need in Barcelona. Beko Spain donated ovens and freezers to institution to help them provide volunteers with healthy and fresh food.

• Hospital de Campaña

FC Barcelona supports the Campaña Hospital by donating sandwiches and snacks after each game at Camp Nou. The institution offers accommodation and three meals to 80 people in Barcelona every day. Beko Spain donated various freezers to Campaña Hospital to ensure that the food is stored in healthy and hygiene conditions, and delivered to people in need in optimal circumstances.

Beko-Czech Republic

• Veronika Kasakova Foundation for Children

Beko supports the Veronika Kasakova Foundation which helps children from orphanages. Veronika Kasakova Foundation is focused on eliminating problems that may be encountered by children who have been raised

at orphanages in Czechia and prepared to live on their own. Beko provided new equipment for orphanages and supported children in a hockey tournament.

Defy - South Africa

• AmaZulu Community Trust



AmaZulu Community Trust was founded in 2009 in order to improve communities in South Africa by using the power of football. Football is used as a means to implement life skills programs, HIV/AIDS trainings and incentives. Defy supports 2 children with extraordinary skills under a scholarship program. Children, who are selected within the scope of scholarship, are given free education at the best schools of the region.

• Focus on the Family

Defy sponsored the “No Apologies” program, which has a budget of 1,000,000 Rand and pursues the goal of changing the ways of thinking and behaviors of the youth and encouraging them in making the right choices in their lives. Defy has reached to around 4590 children through this program.

• Cheshire Homes

Cheshire Homes was founded to help disabled individuals live their daily lives comfortably. Cheshire Homes volunteers help disabled individuals to help them become self-sufficient, meet their basic needs and continue their treatment. Defy provided household appliances for four Cheshire Homes in Durban.

SOCIAL RESPONSIBILITY

• Equipment Donation to Orlando Clinic

In 2017, Defy donated the equipment used at Sarah Graham's cooking show to the Orlando Clinic in Soweto. The clinic offers food to the elderly and other people in need with mental and physical disabilities. The equipment is used to cook food to be distributed to sick people or people who cannot cook for themselves.

• Vukuzakhe Day-Care Center

Home appliances manufacturer Defy provided financial support for the renovation of the Vukuzakhe Day-Care Center which supports 260 children from 6 months to 5 years of age. Vukuzakhe representatives contacted Defy in 2016 for the donation of heaters, ovens, etc. to the day-care center. Following a visit to the day-care center, Defy team went beyond this and offered financial support for the renovation of the center, which is important in terms of early education of children. 4 young people were employed during the renovation within the scope of this project. 15 unemployed young people will be trained in various areas related to the maintenance of the day-care center. Certificates will be issued at the end of the training.

• Johannesburg Cooking School

Defy donated 10 24L conventional microwave ovens to Johannesburg Cooking School. Johannesburg Cooking School is a CSI cooking school which offers cookery certification.

• Ekululeni Games

Defy sponsored Ekululeni Games in 2016 and 2017. The main objective of the games include showing people what they are capable of, combating against use of drugs and other illegal substances, and eliminating criminal activities.

Arctic – Romania

• Activities for Supporting the Professional Improvement of Employees

The company helps especially the blue-collar workers gain more effective life skills under the program "Arctic helps you organize your backpack". This campaign was initiated in 2013 for the employees of the manufacturing plant, and expanded later as a support model covering all Arctic employees. In 2017, the company continued "You can support, too" campaign, under which company employees donate toys, food and money to those in need.

• Supporting Local Organizations - Health Institutions

Considering the support given to local organizations as an important part of its social responsibility perspective, Arctic supports Gaești Hospital, which offers healthcare services for 16 settlements. Arctic donated freezers, washing machines, dishwashers and driers to the hospital to ensure patients receive service under better hygiene conditions.

Arçelik A.Ş. Turkey

• Take A Step, Make A Difference

In 2017, a team of 100 people including Arçelik A.Ş. employees, dealers and services participated in the 12th Runatolia Marathon in Antalya for the purpose of raising awareness on a better future. Arçelik A.Ş. team took the second place in the Corporate Challenge category.





Responsible Consumption

Grundig “Respect Food”

Adopting the approach of “Respect Food”, Grundig leads the efforts to prevent food waste and develops joint projects in collaboration with major organizations to raise awareness on this issue.

• Food for Soul - International Campaign

As a token of its “Respect Food” approach, Grundig has supported the “Food For Soul” initiative organized by Michelin-star Chef Massimo Bottura in an effort to develop solutions against waste food since 2016. The purpose and principles of “Food For Soul” are a perfect match for Grundig’s values. Working towards a sustainable world is one of the most important topics under Grundig’s brand focus of “making better homes and a better world”. The brand supports “Food For Soul” in its objective of reducing food waste and believes that more people should have awareness on this issue.

Following the opening of Refettorio in Expo 2015 in Milan, Grundig sponsored Refettorio Gastromotiva, which was also supported by many chefs that offered new recipes during 2016 Olympics. The initiative was focused on preventing food waste and turning them into consumable food. The chefs cooked delicious and nutritive meals by using surplus food in kitchens equipped with Grundig products that aim at maximizing food life and providing the highest quality support in terms of cooking. Grundig also supported the “Face a Fridge” event with 20 special design refrigerators. The event was held in August 2016 in Berlin by Thierry Noir, the legendary street artist who painted the Berlin Wall. After the exhibition, Grundig donated the refrigerators painted by Thierry Noir to “Food for Soul” organization.

In May 2017, Grundig organized “no waste week” event within the scope of No Waste Food Week in Slovenia in an attempt to raise awareness on prevention of food waste. The event was organized with the participation of Massimo Bottura, and famous chefs shared new recipes with the visitors to make use of food that reached date of expiry. Grundig also supported the opening of Refettorio Felix at London Food Week in June 2017. At the project where Grundig products are used, efforts were made to prevent food waste and delivery of surplus food to those in need.

Grundig launched the second digital phase of the Respect Food Initiative on October 16 World Food Day simultaneously in 13 countries, proving its commitment to prevent global food waste. Within the scope of the collaboration with the “Food For Soul” initiative, Grundig helped save 25 tons of food in 1.5 years. Within this period, Grundig worked with more than 210 chefs and actively helped delivery of more than 48,000 plates of surplus food to those in need with the support of more than 600 volunteers.

SOCIAL RESPONSIBILITY



• Feed Your Soul - Turkey

Grundig, in line with its “Respect Food” principle, has taken its efforts to raise awareness on food waste to another level in Turkey with “Feed Your Soul” project. The willingness of many individuals to be a part of a sustainable life is the basis of the “Feed Your Soul” initiative’s mission to raise awareness on consumption, reduce waste and inspire a sustainable life integrated with nature.

In this sense, “Feed Your Soul” project can be described as “A journey to a simpler and better life. An initiative for a change and transformation which will allow us to live a conscious life, connect with the nature, practice recycling on a regular basis, consume consciously, and know where the food on our table comes from and goes to.”

The first step of this initiative was a series of videos featuring Chef Mehmet Gürs, who is the best individual that would promote this project with his achievements in both business and private life. These videos were shot in a special house transformed from a container located in the nature and Mehmet Gürs hosted special guests to talk about topics ranging from ideas on how to prevent food waste in the kitchen to the journey of food from the farm to our table. In addition to the videos, a web page that features many inspiring articles and ideas, social media communication and the main sponsorship of the international food congress YEDI are among the short-term steps of the project.

This project, planned to be expanded in 2018, has the main purpose of raising awareness on this topic to a wider audience in Turkey and increase the number of participants of the “Feed Your Soul” initiative.

Beko - Eat Like a Pro

If the current trend on global obesity issue continues, the number of people under the age of 5 with obesity or overweight issue is estimated to be 70 million in 2025. Beko believes in two methods of struggling this. By making healthy nutrition easier with innovative technologies and encouraging children to gain a habit of healthy nutrition.

With this perspective, Eat Like a Pro global social initiative was started with the collaboration between Beko and FCB. This initiative aims at raising awareness on the rapidly increasing childhood obesity and encourage children to eat healthy and make exercise a part of their lives with inspiration of their favorite athletes.

The purpose of “Eat Like a Pro” initiative is to help children eat like their heroes and promote healthy nutrition among children worldwide. The purpose is simple; eliminating childhood obesity through measures and education. Global campaign face of the initiative will be FCB star Gerard Piqué. Beko will also launch a range of FCB-branded refrigerators, espresso machines, induction ovens and vacuum sports blenders to promote healthy nutrition among children and have them Eat Like a Pro.



Eco-friends Campaign

• Dawlance – “Be Reliable, Recycle” eco-friendly campaign

In 2017, Dawlance initiated the “Be Reliable, Recycle” campaign to encourage efficient use of natural resources and make useful home appliances out of cardboards for schools in need (SOS Children’s Village & Green Cresten Trust Schools). With this campaign, Dawlance cooperated with schools and established programs for education and awareness on “Reduce, Reuse, Recycle” among the young generation. Students were informed on how to recycle cardboards and other industrial waste materials. Cardboard boxes, shades, etc. were made for schools in need within the scope of the program. It is planned to continue these efforts in the years to come.

• Arctic - Eco-friends Campaign

The was started in 2012 and continued in 2017 with the purpose of preserving natural resources, waste management, energy consumption and waste reduction.



• Climbing the Summit of Europe Against Global Warming

Arçelik A.Ş. acts responsibly for a sustainable future in line with its vision. As a global actor, the company leads the initiatives against global warming. Arçelik A.Ş. employees support these efforts too. A team of 10 Arçelik A.Ş. employees climbed Elbrus, Europe’s highest mountain in the Kabartai-Balkar Region of Russia. Arçelik team opened a flag which read “Climbing Against Global Warming” at 5642 meters.

ARÇELİK A.Ş. AND SPORTS



Arçelik A.Ş. and Sports

Beko believes that sports has the values that match the company's dynamic and energetic structure, and plays an important role in development of the youth. The power of sports to reach and touch the lives of many is an exact match for Beko's vision as a global brand. Beko supports social development through sports and makes new investments in this field day by day.

Beko was the "Presenting Sponsor" 2015 France-Croatia-Germany-Latvia Eurobasket after 2009 Poland - Eurobasket, 2010 Turkey - FIBA Basketball World Cup, 2011 Lithuania - Eurobasket, 2013 Slovenia - Eurobasket and 2014 Spain - FIBA Basketball World Cup. In 2017, Beko continued to actively use FC Barcelona and Beşiktaş Football Club sponsorships through communication on various channels and dealer events.

Beko - FC Barcelona

Beko has been the Premium Partner sponsor of FC Barcelona from the beginning of 2014/15 season to the end of 2017/18 season. Bringing two global brands together, this sponsorship agreement resulted in featuring of Beko logo on the left arm of jerseys and back of training kits of FC Barcelona.

In 2017, Beko continued to sponsor FC Barcelona with the global "Official Partner of Play" campaign focused on the values of the game, the club and the brand. World stars Leo Messi, Luis Suárez, Gerard Piqué, Arda Turan and Marc-André Ter Stegen played in Beko's campaign movies. Their teammates Neymar Jr., Andrés Iniesta and Ivan Rakitic were featured in the campaign with their animated versions.

Beko is also the sponsor of FCBEscola Istanbul for two years. FCBEscola is the official football academy of Barcelona Football Club in Turkey and operates with two schools in Istanbul.



Beko - Beşiktaş Professional Football A Team

Having been a sponsor of Beşiktaş JK between 1988 and 2004, Beko continued to be the Jersey Back Sponsor of Beşiktaş Professional Football A Team, within the scope of sponsorship agreement signed at the beginning of 2014/2015 season with this club, with which the Company has special ties.

Arçelik - Turkish Football Association Sponsorship

Arçelik established a significant cooperation with the Turkish Football Association and became the Main Sponsor of National Football Teams, making it the national brand of Turkey in 2017.

AWARDS & ACHIEVEMENTS IN 2017

Environmental Awards & Achievements

- Beko LLC Russia Plant calculated greenhouse gas emissions in 2016 in accordance with ISO 14064-1 Standard on Calculation and Reporting of Greenhouse Gas Emissions.
- Arçelik A.Ş. was granted with the grand prize for its achievement in collection of waste electrical and electronic devices by the Ministry of Urban Planning and Environment at 2017 Waste Management Symposium.
- Bolu Cooking Appliances Plant was granted with the Grand Prize with the Heat Pump Project within the scope of the contest for Increasing Energy Efficiency in the Industry Projects (SEVAP) organized by the Turkish Ministry of Energy and Natural Resources.
- Eskişehir Compressor Plant was granted with the first prize in Product Development category at ESO Technology Awards organized by Eskişehir Chamber of Industry with the “Eco-compressor - Most Efficient Refrigerator Compressor Project”.
- Arçelik A.Ş. has become one of the top 10 European companies in “Environmental and Corporate Sustainability” category within the scope of European Business Awards and granted with Ruban d’Honneur.
- Beko US Inc. was granted with the ENERGY STAR® Partner of the Year award by the US Environmental Protection Agency (EPA) for its achievements in energy efficiency and protection of the environment.
- Arçelik A.Ş. has become one of the nine companies granted with the Sustainability Leadership Award among 350 companies which ‘ÖkoWorld ÖkoVision Classic’, a leading sustainability fund in Europe, invests in on a global scale.
- Within the scope of the “Increasing Efficiency in Industry” project supported by the Ministry of Energy and Natural Resources (Renewable Energy Directorate), United Nations Development Program (UNDP) and United Nations Industrial Development Organization (UNIDO), Arçelik A.Ş. was granted with a prize for its contributions to the process in Turkey, methods applied, model developed and performance.
- Arçelik A.Ş. was in the Global A list with the 25 best performing companies within the scope of the climate and water programs of Carbon Transparency Project. Arçelik A.Ş. was the first Turkish company to make it into the Global A list in both categories and granted with “2017 CDP Global Climate and Water Leader” award.
- “Business Transparency Project” of Arçelik A.Ş. was granted with “Best Contributions to Corporate Responsibility” award by Chartered Institute of Procurement & Supply (CIPS) which evaluates Europe’s best purchasing applications.

Corporate Awards & Achievements

- Grundig’s VUX technology was granted with the Innovation Honorary Award at CES 2017, a prestigious technology fair in the US.
- Beko was granted with the “Special Mention” award by German Design Awards for its 70 cm Combi Refrigerator and US Type Ovens.
- Grundig Delisia Blender, Beko Cosmos Wardrobe Type Refrigerator, Grundig Fourever 3K Refrigerator and Grundig Fourever 4K Flush Handle Refrigerator were granted with awards at IF Design, a prestigious awards organization of the design community.
- Arçelik’s “The World Speaks Turkish” advertisement was recognized as “The Most Creative Advertisement Film” of 2016 by the students of Galatasaray University.
- Arçelik A.Ş. was granted with the first prize in the category of “Company Focused On Customer Satisfaction” at the 20th Traditional Consumer Awards by the Ministry of Customs and Trade.
- Arçelik A.Ş. was granted with “2016 Best Selling Partner Through Consumer Channels” award by Lenovo.
- “Arçelik Sensiz Olmaz” and “Beko Dünyam” special customer programs were granted with the second prize in the category of Loyalty Programs by Direct Marketing Communication Association (DPID).
- Beko DFN 28320 X Dishwasher was granted with the “Product of the Year Award” for innovative and high-quality products by the Israel Consumers Association.

- Arçelik A.Ş. was recognized as the top exporter in the “White Goods” industry and the second biggest exported in Turkish “Electric - Electronics” and “Electronic” industries at 2016 TET Export Achievement Awards organized by the Electric - Electronic and Service Exporters Union (TET).
- Eskisehir Refrigerator Plant was awarded “TPM World Class” award in the field of Total Productive Maintenance by the JIPM (Japan Institute of Plant Maintenance), and became the first plant that made this achievement in its industry.
- Arçelik A.Ş. advanced by four steps and ranked as 74th in the list of “Companies That Filed the Most International Patent Applications” issued by World Intellectual Property Organization (WIPO) operating under the United Nations.
- Arçelik A.Ş. was granted with the first prize in the categories of “Best Customer Services”, “Best Call Center” and “Best Customer Loyalty Program” by Contact Center World Awards, a very prestigious contact center awards organization.
- Arçelik A.Ş. 2016 Annual Report was granted with prizes in four categories at the “International Annual Reports Contest” organized by the League of American Communication Professionals (LACP).
- Grundig Bluetooth Speakers, Grundig Bagless Vacuum Cleaner, Grundig Fourever 4-door Flush Handle Refrigerator were granted with “Product Design” prizes at Red Dot Design Awards.
- Arçelik was recognized as “Turkey’s Lovemark” for the 10th time in the White Goods Category in the “Turkey’s Lovemarks 2017” research by MediaCat-Ipsos.
- Grundig Bluetooth Wireless Speaker Range, Arçelik Water-tank Midi Telve and Arçelik Inova Refrigerator were granted with the “Excellent Design” award at the Design Turkey 2017 Industrial Design Contest organized by the Ministry of Economy and Turkish Exporters Association.
- Arçelik A.Ş. was granted with “Patent Leadership Special Award” at the Turkey Innovation Week organized by Turkish Exporters’ Association.
- Arçelik A.Ş. was recognized as the “Leader of Turkey” among the private industry R&D centers and “Leader of the Industry” in the category of durable consumer goods at the 6th Private Industry R&D and Design Centers Summit organized by the Ministry of Science, Industry and Technology.
- Arçelik A.Ş. was granted with the “Retail Digital Transformation” award by the Digital System Developers Association (DSDER).
- Coffee Machine ETM Testmagazin; Hand Blender and Hand Blender Set products from the Grundig Delisia family were rated as “Very Good” by Hause & Garten Test. Table Blender from Grundig Delisia family was rated as “Good” by Hause & Garten Test.
- Grundig Compact Smoothie Maker was rated as “Very good” by Technik zu Hause in 2016 and “Good” by Hause & Garten Test in 2017.
- Grundig Slow Juicer was rated as “Very good” by Hause & Garten Test.
- Grundig VCH 9631 Cordless Upright Vacuum was rated as “Good” by Hause & Garten Test in 2018.
- Beko SPA7131P 3100W Hand Iron was selected as “Best Buy” by Which? in the UK.
- 2016 Sustainability Report of Arçelik A.Ş. was granted with awards in two categories at the “International Activity Reports Contest” organized by League of American Communication Professionals (LACP).





Corporate Governance



The achievements of Arçelik A.Ş. spanning over half a century are based on the principles of accountability, responsibility, clarity and transparency. Arçelik A.Ş. supports its corporate governance based on active shareholder involvement, effective audit mechanisms and transparent reporting practices with high-quality systems and standards and is focused on continuous improvement of its corporate governance performance.



CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

Corporate Social Responsibility Approach

Sustainable use of the earth's limited resources is not only the responsibility of individuals, governments and nongovernmental organizations (NGOs), but companies as well. The company carries out its activities with a view to create a more livable world for next generations.

Responsibilities towards "Sustainable Development", environmental awareness and social sensitivity and operating in full compliance with laws, ethical standards and human rights constitute the "Corporate Social Responsibility" of the Company.

Drawing its strength from the corporation values and the principle of "I exist only if my country exists" determined by dear deceased Vehbi Koç, the founder, the Company strives to fulfill its responsibilities together with its employees and all of its business partners.

Corporate Governance Approach

The Company's corporate values, ethical approach, good governance philosophy and business ethics principles guide the employees to fulfill their responsibilities.

In line with international business standards, for long-term productivity and success of the Company, it is inevitable to convey four principles of corporate governance: accountability, responsibility, openness and transparency and equality, which build trust between stakeholders and corporations, to its activities.

Arçelik A.Ş. is conscious of the fact that the methodology for fulfilling the promises on trust and stabilization against the Company's stakeholders, especially investors can be achieved by sound corporate governance. The positive impacts of Company's performance on "Corporate Governance Principles" are clearly observed in especially meetings conducted with corporate investors. The company not only depends on its business results and robust capital structure to achieve its profitability targets, but also on its "Corporate Reputation", an important asset that has been established over many years.

Corporate Governance Principles Compliance Report

SECTION I: Statement of Compliance with Corporate Governance Principles

Implementation and actualization of Corporate Governance Principles, which were issued by Capital Markets Board (CMB) under decision number 35/835 on 04.07.2003 and shared with the public on July 2003, is important especially for the creditworthiness and financial opportunities of publicly traded corporations. The said principles that reveal the quality of corporate governance have been adopted by the Company. As per CMB resolution No. 48/1588 on 10.12.2004, it has been decided that the companies traded at Istanbul Stock Exchange (ISE) shall include their statements related to their conformance with mentioned Corporate Governance Principles in their annual reports and on their websites (if any), beginning from their 2004 annual reports. In accordance with the above mentioned resolution, Arçelik A.Ş. has set up an in-house team to examine the compliance with these principles, and in consequence of these studies as of 2004, information on Compliance with Corporate Governance has been included in its annual reports and on its website. Corporate Governance Principles were revised upon Corporate Governance Communiqué of CMB No: II-17.1, which was published in the Official Gazette dated 03.01.2014.

While fully complying with the obligatory principles, which are in effect in 2017, within the scope of Corporate Governance Communiqué No: II-17.1, the Company has also complied with the majority of nonobligatory principles. Although also the full compliance with nonobligatory principles is aimed, full compliance is not yet achieved due to reasons such as challenges encountered in the implementation of some principles, on-going discussions both in our country and international platform about compliance with some principles and some principles that not well-suit to current structures of market and company. Studies on the principles, which have not yet been put into practice, still continue and it is planned to put into practice upon finalization of administrative, legal and technical infrastructure works that will contribute to the efficient governance of the Company. Comprehensive works performed within the frame of corporate governance principles within the structure of the company and in the related sections principles which have not been complied yet and if any, conflicts of interest arisen due to this have been explained below.

Primary studies in the field of Corporate Governance within 2017 are the studies of compliance with corporate governance principles of CMB and Capital Market

CORPORATE MANAGEMENT PRINCIPLES COMPLIANCE REPORT

Law containing new regulations and communiques prepared based in this Law. Amendments to articles of association required to comply with the new Turkish Commercial Code and Capital Market Law have been accepted by the Ordinary General Assembly on 28.03.2013. Our Board of Directors and committees of the Board of Directors are established in compliance with the regulations in Corporate Governance Communiqué. Established Board of Directors' Committees efficiently conduct their operations. Compliance opinion was obtained from CMB for nominees of independent board members and announcement to the public was performed. Remuneration Policy for Board of Directors and Senior Managers was determined again and approved by the Ordinary General Assembly. The general assembly information document and general assembly information such as privileged shares, voting rights, organizational changes which are obligatory to be explained as per the principles, resumes of nominees for Board Members, remuneration policy for Board of Directors and Top Managers, associated party transactions and other information that needs to be explained have been submitted for our investor's information 3 weeks before the Ordinary General Assembly dated 23.03.2017 at the latest. All of our related party transactions have been submitted for the information of Board of Directors and with the approvals of our independent board members; the continuity of the said transactions has been decided. Furthermore necessary revisions have been made in terms of full compliance with principles by revising our company's website and annual report.

Also in the forthcoming period, necessary works are going to be performed by considering the improvements and implementations in legislation for compliance with the principles.

The Company's corporate governance rating was 9.52 on a 10 point scale (95.23%) as publicly announced under our disclosure of material events on 22.07.2016 and given by Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. (SAHA) and it was updated as 9.52 on a 10 points scale (95.23%) after the revision performed by SAHA on 21.07.2017. Our Corporate Governance Rating has been determined as a result of an evaluation made under four main topics (Shareholders, Public Disclosure and Transparency, Stakeholders, Board of Directors) weighted based on CMB's Corporate Governance Principles and current distribution based on main topics are provided below:

Main Sections	2016 Rating	2017 Rating
Shareholders	9.52	9.52
Public Disclosure and Transparency	9.72	9.72
Stakeholders	9.91	9.91
Board of Directors	9.22	9.22
Total	9.52	9.52

The report issued by SAHA on the corporate governance rating is available on our Company's website at www.arcelikas.com. In the report dated 21.07.2017, SAHA has made the following assessment:

"Corporate governance rating of Arçelik A.Ş. was revised as specified above considering the importance that Arçelik gives to the corporate governance principles, willingness to execute this as a continuous and dynamic process and improvements realized in that direction since July 2016."

The Company has been included in ISE (BIST) Corporate Governance Index since 31.07.2009.

Corporate Governance Principles Not Yet Implemented

Arçelik A.Ş. believes in the importance of fully complying with the Corporate Governance Principles. However, full compliance with some principles has not yet been achieved due to reasons such as challenges which may be encountered in the implementation and may cause the delay of company activities, on-going discussions both in our country and international platform about compliance and not well-suited to current structures of market and company. For example,

- Concerning the principle no. 1.5.2; minority rights were not entitled to the ones having lower than one out of twenty of the capital with articles of association, the rights were provided within the frame of general regulations in the legislation.
- Concerning the principle no. 4.3.9; no target ratio or target time is determined for woman member ratio in the Board of Directors and evaluation studies are still ongoing regarding the issue. Detailed information regarding the issue is provided in part 5.1.
- Concerning the principle no. 4.4.7, as explained in part 5.1 below, there isn't any restriction for the members of the board of directors to handle other tasks apart from the company.

Full compliance with nonobligatory principles is not secured and the Company is not subject to any conflict of interests.

Efforts for full compliance with the Corporate Governance Principles have been continued by preparing a corporate governance action plan concerning the areas that still need improvement in corporate governance implementations as determined in the Corporate Governance Rating Report for Arçelik A.Ş. prepared by SAHA.

PART II: SHAREHOLDERS

2.1 Investor Relations Department

The tasks of the Investor Relations Department regarding the communication between the Company and investors are carried out by Hande Sarıdal, Finance Director; Faik Bülent Alagöz, Capital Markets Regulation Compliance Manager and Orkun İnanbil, Investor Relations Manager; under the coordination of Polat Şen, Assistant General Manager of Finance and Accounting. With the Board Decision dated 03.04.2017, Polat Şen was assigned as a member of the Corporate Governance Committee.

Licenses of the persons within Investor Relations Department as of 2017 are provided below:

Name-Surname	Title	Type of License Certificate	License Certificate No.
Polat Şen	Assistant General Manager - Finance and Accounting	-	-
Hande Sarıdal	Finance Director	Capital Markets Activities Advanced Level License	202801
Faik Bülent Alagöz	Capital Market Regulation Compliance Manager	Capital Markets Activities Advanced Level License Corporate Governance Rating License	203781/700495
Orkun İnanbil	Investor Relations Manager	-	-

Contact information of Investor Relations Department staff in 2017 are below:

Polat Şen
Assistant General Manager - Finance and Accounting
0212 314 31 00
polat.sen@arcelik.com

Hande Sarıdal
Finance Director
0 212 314 31 85
hande.saridal@arcelik.com

Faik Bülent Alagöz
Manager - Capital Market Regulation Compliance
0212 314 31 03
bulent.alagoz@arcelik.com

Orkun İnanbil
Manager-Investor Relations
0212 314 31 14
orkun.inanbil@arcelik.com

Fax : 0212 314 34 90
e-mail : yatirimciiliskileri@arcelik.com - investorrelations@arcelik.com

Activities carried out in 2017 in order to provide detailed information to investors about the Company's operations is summarized in the following table:

Number of investor conferences and roadshows held in Turkey and abroad	11
Number of interviews with investors and analysts	425
Number of teleconferences organized for the disclosure of financial results as of the end of 2016 and the first 9 months of 2017	4
Number of press meetings organized in Turkey and abroad	15

Major activities executed in Investor Relations Department are as follows:

- Keeping the records of shareholders in a proper, secure and up-to-date manner,
- Responding to shareholders' oral or written queries for information regarding the company, excluding undisclosed information that is considered confidential and trade secret,
- Ensuring that the General Assembly is conducted in accordance with the applicable legislation, articles of association and other internal regulations,
- Preparing documents to be used by shareholders during the General Assembly,
- Keeping records of voting results and ensuring that all reports related to resolutions are delivered to shareholders,
- Observing and monitoring all issues regarding public disclosures, including applicable legislation and the company's disclosure policy,
- Attending meetings held at company headquarters as well as other local and international meetings or ganized by various organizations and informing investors of these meetings,
- Providing information to analysts who make assessments about the company,
- Responding to information requests made by academicians who carry out research about the company and industry,
- Preparing the content, both in Turkish and English, to be posted on the investor relations section of the company's corporate website (www.arcelikas.com), updating the page as frequently as possible, and ensuring that shareholders are able to access company information easily and quickly via Internet,
- Making available up-to-date information on statements which may affect the use of shareholders' rights on the corporate web site,
- Filing material events disclosures through the Public Disclosure Platform (PDP), in accordance with the CMB Communiqué no. II-15.1,
- Monitoring changes in the applicable legislation related to the Capital Market Law and bring these to the attention of concerned units in the company,
- Representing the company at the Capital Markets Board, Istanbul Stock Exchange, and Central Registry Agency (CRA).

The report prepared regarding the activities conducted by Investor Relations Department in 2017 was first submitted to the Corporate Governance Committee to review on 12.02.2018.

2.2 Use of Shareholders' Rights to Obtain Information

In the use of rights of shareholders, the legislation, articles of association and other internal regulations

are applied, and necessary precautions are taken to ensure the use of these rights and all shareholders receive equal treatment. In Arçelik A.Ş., Investor Relations Unit is operates under the authority of Assistant General Manager of Finance and Accounting. The primary objective of the company is to ensure that shareholders exercise their right to obtain information in a fair and complete process. Furthermore, the Company enables its shareholders to exercise their rights, which they are entitled to as partners, fully and as soon as possible.

In the Company no discrimination is applied among shareholders in the use of their right to obtain and evaluate information. Each shareholder has right to obtain and evaluate information.

The queries directed to Investor Relations Unit, excluding undisclosed information that is considered confidential and trade secret, are responded either via phone or in written by obtaining information from the highest authority of related subject. As explained in Part 3.1 of this report, every kind of information and statement, which may affect the use of shareholders' rights are included on the website.

With the intent of extending the shareholders' rights to obtain information and enable them to exercise their rights in an accurate way, up-to-date financial statements as well as necessary information and documents are provided on the Company's website (www.arcelikas.com) both in English and in Turkish. During this period, oral or written information requests addressed by the shareholders have been responded orally or in written without discrimination among shareholders within the frame of Capital Markets Regulation.

Material event disclosures required to be submitted to the PDP along with financial statements and other company information are submitted digitally with electronic signatures.

Notwithstanding that the Company Articles of Association do not include any provisions regarding the right to demand special auditor as an individual right, as per Article 438 of Turkish Commercial Code, each shareholder, in case it is necessary for being able to exercise the shareholder right and if the right for obtaining or evaluating information had been exercised previously, may demand general assembly to clarify specific matters through with a special audit even if it is not included in the agenda. The Company has also not received such a request during the period. In addition, the operations of the Company are periodically audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., an independent auditing firm (a member firm of Ernst & Young Global Limited) elected during General Assembly.

PART II: SHAREHOLDERS

2.3. General Assembly

In order to ensure attendance of maximum number of shareholders, announcements of invitation to the General Assemblies are made through all available means of communication, including electronic media, at least three weeks in advance. Our Articles of Association have been issued accordingly.

In addition to the announcements of General Assemblies and announcements and disclosures, which are required by the applicable legislation, the following matters are notably announced to our shareholders on our Company's website as well:

- a) The total number of shares and voting rights, which reflect the shareholding structure of the company, as of the date of announcement,
- b) Changes in management and activities at the company or the company's subsidiaries and affiliates that would have a crucial impact on any activities, and which took place in the previous accounting period or are planned in the next accounting period,
- c) In the event that the agenda of the General Assembly contains any items which stipulate the discharge, change or election of any members of the Board of Directors, the justification for these and information on the individuals who would be nominated for the Board of Directors;
- d) Requests of shareholders, Capital Markets Board (CMB) and/or other institutions and organizations related to the company for any items to be included on the agenda,
- e) In the event that the agenda of the General Assembly contains any items that stipulate for an amendment to any of the articles of association, the list of previous and current items to the articles of association alongside the relevant Board of Directors' resolution.

Concerning the fulfillment of the obligation stipulated in paragraph (c), résumés of individuals who shall be nominated for the Board of Directors; their employment history for the past ten years and reasons for leaving their prior employment; the nature and prominence of their relationships with the company and the company's affiliates whether they can be considered independent or not, and in the event that these individuals are elected as members of the Board of Directors, information on similar issues to affect the company operations.

All shares of the company's capital stock are nominative. An informative document regarding the agenda

items shall be prepared and disclosed to the public on the company's corporate website and PDP prior to the General Assembly. General Assemblies are held open to the public, including stakeholders and members of the media, provided that they do not have the right to speak at the meeting as per Company's Articles of Association.

The Company has held 1 Ordinary General Assembly in 2017.

During the Ordinary General Assembly, which was held on March 23, 2017 and during which the Company's 2016 operations were discussed, 59.790.713.247 shares (88.48%) of 67,572,820,500 shares, which is the total of Company's capital, were represented physically and on electronic environment. Company's shareholders (either in person or by proxy), stakeholders and members of media attended the meeting. Representatives from several intermediary institutions and banks providing settlement and custody services also attended the meeting as observers. During the General Assembly Meetings, questions directed by shareholders are answered. In cases when the question being asked is not related to the agenda or is too complicated to be answered during the meeting, the answers thereto are provided by Investor Relations Unit in writing. No question was asked requiring such written response in the General Assembly dated March 23, 2017.

- According to the Articles of Association, the General Assembly was announced at least three weeks before the General Assembly in PDP, in the Turkish Trade Registry Gazette, on the company's corporate website, in Electronic General Assembly System, and on e-company in an effort to reach the highest possible number of shareholders besides the procedures stipulated through the legislation.
- All announcements comply with Corporate Governance Principles.
- Starting with the invitation date of the General Assembly, financial statements and reports, including the annual report, the proposal for dividend distribution, information on the agenda of the General Assembly, supplementary documents pertaining to the agenda, the current Articles of Association, the text and reasons of amendments, if any, to the Articles of Association are all made available to shareholders at the company headquarters and on the company's corporate website for the convenience and open review of shareholders.
- The Company prepares a clear agenda of the General Assembly to avoid any ambiguities and misunderstandings. Such information consists of references and citations pertaining to the agenda items to be discussed.

- Examples for power of attorney are announced and posted on the company's corporate website for shareholders represented by proxy.
- Voting procedure is announced prior to the meeting and shareholders are duly informed via the company's corporate website.
- During the General Assembly held on March 23, 2017, the company did not receive any requests from shareholders for any additional items to be included on the agenda.

General Assemblies are conducted with minimum costs and simplest method and as not to cause inequality among shareholders. By facilitating the participation of shareholders residing both in the country and abroad, they are enabled to participate in General Assembly.

Besides, all documents that may be needed by foreign shareholders in order to be informed about the General Assembly and agendas are translated into English and sent via the banks performing the barter and holding transactions of such shareholders and are also posted on the company's corporate website.

The company makes every effort to hold its General Assembly close to the city center for greater participation and convenience. The number of participants is tracked annually and the meeting venue is designated according to the number of participants. The Ordinary General Assembly was held on 23.03.2017 at the following address: "Divan İstanbul Elmadağ, Asker Ocağı Caddesi No:1 34367 Şişli İstanbul". The location of the General Assembly was easily accessible to all shareholders. Invitations to the General Assembly are issued by the Board of Directors according to the provisions of the Turkish Commercial Code (TCC), Capital Market Law and the Articles of Association. Resolutions made by the Board of Directors for the convention of General Assemblies are shared with the public via disclosures filed with the PDP.

As per the regulations of CMB, it is obligatory to disclose financial statements to the public within 11 weeks after the end of accounting period. However, the company discloses its financial statements much earlier. The financial statements for 2017 year-end were disclosed during the 5th week. Following the disclosure of financial results, preparations for General Assembly are started and General Assembly is conducted upon the finalization of required legal procedures. This year's General Assembly will be conducted within three months after the accounting period. During the General Assembly, subjects included in the agenda are conveyed to shareholders in detail and fairly with a clear and understandable method; proper discussion environment is created where shareholders are provided with

equal opportunities to express their opinions and raise questions. For the featured subjects included in the agenda, related board members, related other persons, authorized persons and auditors who are responsible for preparing the financial statements participate in the General Assembly in order to answer the questions and provide necessary information.

The shareholders are also given the opportunity to make comments and recommendations regarding the remuneration of the company's Board of Directors and top managers.

The General Assembly is provided with information on processes, if any, based on the permission acquired by shareholders having the governance control, members of Board of Directors, managers with the responsibility of administration and their spouses and second degree blood and kinship relatives at the General Assembly to perform tasks within the Company's area of operation in line with articles 395 and 396 of Turkish Commercial Code.

As per clause 4 of the article 415 of the new Turkish Commercial Code no. 6102 and the clause 1 of the article 30 of the Capital Market Law no. 6362, it is no longer a requirement to store share certificates to acquire the right to participate in the general assembly and the right to vote. Therefore, our partners who wish to participate in the General Shareholders' Meeting are not required to block their shares before the Central Registry Agency.

At the General Assembly, votes of shareholders on the agenda subjects are recorded in the minutes of meeting. Each agenda topic is voted separately at the meeting. The General Assembly is conducted under the supervision of a Commissioner from the Ministry of Customs and Trade.

General Assembly is informed about donations and aids which are made by the Company to foundations and associations for social relief with a separate agenda topic. At the ordinary general assembly held in 2017, information on the donations and aids in 2016 was provided with a separate agenda topic and the upper limit for donations in 2017 was determined to be TL 19,000,000 and there has been no change in the donation policy.

The minutes of the General Assembly are posted on the corporate website and are also made available to shareholders at the company's headquarters and given upon request.

PART II: SHAREHOLDERS

2.4. Voting and Minority Rights

The voting procedures at the General Assembly are announced to shareholders at the beginning of the meeting. Applications, which cause inconvenience for the exercise of voting right, are avoided in the Company and each shareholder, including residing abroad, is provided with the opportunity to exercise his/her voting right in the most appropriate and convenient manner.

The Company's Articles of Association do not include any special voting privileges. Each share has one voting right. Any legal entity, which is the affiliate of The Company, does not exist among the Company's shareholders. The Articles of Association do not contain any provisions preventing a non-shareholder from voting by proxy.

Shareholders representing the minority rights compose the Management together with majority shareholders by their participation at General Assembly. In 2017, our company has not received any criticism or complaint concerning this issue. Minority rights are determined to be no lower than one-twentieth of the capital by the Articles of Association.

2.5. Dividend Rights

The dividend distribution policy approved by the shareholders as 6th Agenda article in Ordinary General Assembly held on 27.03.2014 has been determined as:

“Our company performs dividend distribution within the frame of the provisions of Turkish Commercial Code, Capital Market Regulations, Tax Regulations and other relevant regulations and the article regarding dividend distribution in our Articles of Association. The distribution of dividends is based on a balanced and consistent policy between shareholders and corporate interests in accordance with Corporate Governance Principles. As a principle, 50% of the distributable term profit (calculated as per the Capital Market Regulations) is distributed in the form of cash and/or bonus shares to the extent allowed by the relevant regulations and financial facilities as long as they have provisions in the existing resources specified in our legal records on the basis of market expectations, long-term corporate strategy, investment and finance policies, profitability and cash position. The purpose is to distribute dividends within maximum one month after the General Assembly meeting, which also decides on the date of distribution of dividends. General Assembly or Board of Directors (if authorized) may decide on distribution of dividends

in installments in accordance with the Capital Market Regulations. The Articles of Association of the Company states that The Board of Directors may distribute dividend advance provided that it is authorized by the General Assembly, and that it complies with the Capital Market Regulations.”

The company's profit distribution process is carried out in accordance with TCC (Turkish Commercial Code) and CMB, within statutory periods. At the Ordinary General Assembly dated March 23, 2017, it has been decided to distribute gross dividend rate at the rate of 62.895% (net 53.461%) based on 2016 financial results and as of April 3, 2017, dividend distribution has started. The Articles of Association do not grant any privileges regarding profit sharing.

2.6. Transfer of Shares

The Articles of Association do not include any provisions which obstruct the free transfer of shares and restricting the transfer of shares. CMB regulations are applied in terms of takeover of Company's nominative shares treated in the stock market.

SECTION III: PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. Corporate Web Site and Its Content

The Company uses its corporate website (www.arcelikas.com) actively in order to communicate more effectively and rapidly and to be constantly in touch with its shareholders, in accordance with CMB's Principles. The information provided here is updated regularly. The information posted on the company's website is the same as and/or consistent with the material event disclosures made in accordance with the applicable laws, they are complete and do not contain any contradictory information.

In addition to the information required to be publicly disclosed by the applicable laws, the company's website provides the following information: trade registry information, the latest partnership and management structure, the notification that the company has not issued any privileged shares, the latest version of the company's Articles of Association together with dates and numbers of the Turkish Trade Registry Gazettes that contain the amendments made; material event disclosures, financial statements, annual reports, prospectuses and IPO circulars, agendas of General Assembly and list of attendants and minutes, proxy voting form, dividend distribution policy, disclosure policy, ethical rules of the company and answers to frequently asked questions. Accordingly, such information for the last 5 years is available on the company's website.

The company's website is provided both in Turkish and English in compliance with the content and design required by CMB's Principles. It is the responsibility of the Investor Relations Department to prepare, update and contribute to the content posted on the Investor Relations section of the company's website. The Company makes every effort to provide investors of its corporate website with better service.

The company is controlled by the main partner Koç Holding A.Ş., Koç Family and the companies owned by the same.

3.2. Annual Report

The Company Board of Directors prepares the company's annual reports in sufficient detail to ensure that the public is able to access complete and accurate information about the company's activities and as per the information listed in Corporate Governance Principles.

In addition to the information required to be included by the applicable law and in other parts of Corporate Governance Principles, annual reports contain the following;

- a) Information on positions held by members of Board of Directors outside the company in their resumes and their declaration of independence,
- b) Information on the names of members of the committees of the Board of Directors, the frequency of meetings and the functions carried out,
- c) Information about corporate social responsibility activities conducted by the company that have social and environmental consequences and that have an impact on the social benefits enjoyed by employees and the vocational training they receive.

PART IV - STAKEHOLDERS

4.1. Informing Stakeholders

Stakeholders are third parties who are directly involved with the Company. The company provides information to its stakeholders on matters of interest by organizing meetings or using teleconferences. Taking into account the fact that engagement stakeholders would provide long-term benefits to the company, the Company respects the rights of its stakeholders that are protected by laws, mutual arrangements and contracts. The corporate governance structure of the Company allows all its stakeholders, including employees and representatives, to communicate their concerns regarding illegal or unethical practices to the company's top management. Evaluating the complaints received by the Company is among the tasks of Audit Committee. Furthermore Internal Audit Department also evaluates the complaints and communicates them to the Audit Committee.

Composing the dealership organization of the Company in Turkey and company employees, 3,044 dealers constitute a major stakeholders group that is directly in relation with the Company. The company regularly informs its employees through the practices, communiques, circular letters, regulations and written notifications and at the same time it holds regular "Dealer Meetings" throughout the year to keep its dealers up-to-date on practices and campaigns, company policies, targets and recent economic developments as well as to create a more effective system by listening to the dealers' problems and concerns.

Besides, we have various efforts to increase collaboration with our direct and indirect 5000 suppliers whom we consider a significant link of our supply chain and stakeholders. The primary ones among those efforts are Technology and Innovation collaboration days, supplier days, supplier trainings, audits, visits, Arçelik corporate website and our supplier portal. As part of these efforts, a general briefing about Arçelik's vision, strategy, business goals and future actions is made, and our expectations from our suppliers in terms of sustainability is communicated.

Employee relations, which are managed by collective bargaining, are carried out through union representatives. The Company is a member of Metal Industrialists Union (MESS) and the blue-collar employees of the Company are the members of Turkish Metal Union. The Collective Bargaining Agreement, which covers all Arçelik employees who are the member of union and is effective from September 1, 2017 through August 31, 2019, was signed in January 30, 2018.

4.2. Stakeholders' Participation in the Company's Management

Particularly through suggestion system, call center, web site, face-to-face regular meetings for both employees as internal customers and dealers as external customers; mechanism and models supporting the participation of the stakeholders, particularly the company employees and the dealers, to the company management are included and developed in a way not to interrupt the operations of the company.

To encourage the participation of the stakeholders in the management, their demands determined through the tools like "suggestion, survey" are reflected on the operations of the company. Opinion of the Labor Union is obtained for the implementation changes regarding the rights provided for the employees and working conditions and environment other than those specified in the collective labor agreement. The Company also encourages its dealers, who are in close contact with the company, to participate in the company's management by organizing "Dealer Meetings".

The Company considers customer and supplier satisfaction among its top priorities. The Company monitors customer satisfaction regularly and issues reports. The Company cherishes the confidentiality of customer and supplier data, which are considered as trade secrets. Customer satisfaction policy of the company given below is shared with the stakeholders in writing and business and all management processes are shaped within the frame of this policy.

As Arçelik A.Ş. we adopt a customer-oriented approach which accepted as the main principle that customer request and suggestions for all of our brands we provide service to are easily communicated from each channel without profile discrimination (call center, e-mail, www.arcelik.com.tr, www.beko.com.tr, www.grundig.com.tr, www.altus.com.tr, fax, letter, social media, dealer), collected on a single traceable, reportable, transparent and safe information pool, these records are handled and evaluated in compliance with the legal regulations in an objective, fair and confidential way and processes are continuously controlled to bring perfect customer experience. In parallel with our approach, all processes are integrated into the management system and a structure controlling each other is established and thus, management targets are set via this system.

The purpose of Arçelik Call Center is to put our clients in the core of our business and offer the best service experience on a 24/7 basis.

Our basic duties include ensuring recommendations and complaints on services / products are delivered to the relevant units and contribute to the development of new products that will meet expectations.

Our strategy of presence on all active customer channels including phone, web, e-mail, social media and online sales helps us solve majority of customer problems on the phone.

Call center services for the brands in Germany and Austria are provided in Turkey as another step to position us as an international solution provider.

In 2017, we started to measure the quality of service that our customers received from our call center by using the internationally-accepted NPS methodology.

We provided many disabled young people with employment under "Home Agent" project, one of our social responsibility projects.

We continued to apply end-to-end management for the entire Cash Register process.

CRM activities through outbound calls help us create additional revenues through customized campaign notifications.

We continue to serve not only external customers but also internal customers through Asist Destek, Koç Finans and Arçelik IT Helpdesk operations.

Within the scope of process optimization, we ensured maximum efficiency including demand management through centralization of many processes.

In line with the strategy of positioning ourselves as the single point of contact for the customers, we centralized calls made to our authorized dealers and outsourced their management to 2 external companies.

As a result of our achievements, we were recognized as the world leader in the categories of "Best Customer Services", "Best Contact Center" and "Best Customer Loyalty Program" at the CONTACT CENTER WORLD contest, which is considered as the OSCARS of the business.

In 2017, Consumer Services under the roof of Consumer Services Directorate provided field service with 12,800 personnel, about 6,000 of which were technicians and 5,650 vehicles at about 607 authorized service locations operating under the authority of 12 regional managements throughout Turkey.

Authorized Service technicians are trained and certified by TH Technical Training unit. In addition to the certification programs, employees of the authorized services were provided with trainings on customer-oriented behaviors, new products/equipment, processes and service development. We continued to focus on training and certification activities in line with Hands-On Learning methods based on measurement and deployed remote learning technologies and personal training management systems. The entire technical staff was

provided with the trainings under relevant profession groups within the field of our industry and certified as per the law no. 6331.

"International Academy" was established to provide international trainings and organized 16494 man/hours of technical training events for 1698 participants in 36 countries in 2017. On the other hand, academy formation process is still on progress in foreign countries. Thailand Academy and South Africa Defy Academy were established under the Central Academy. Technical feedbacks on products are now collected on an international platform with the "business desk" interface program taken online within the scope of international technical support process.

Innovative devices, designs of which were made within Technical Services Department, were put into use of the authorized services. Thus, it was aimed to reduce the expenses and increase the satisfaction.

Authorized services provide over 15 million services annually for all the brands of Arçelik A.Ş. We adopted the principle of keeping customer satisfaction at the highest level in many practices related to consumers under the vision of "unique customer experience, reliable service".

Authorized service performance system is being implemented to provide more quality service to the customers and increase the satisfaction. Performance system is consisted of measurable criteria and performed based on authorized service and technicians. Performance results are shared with the authorized services quarterly and development and action plans are prepared for the areas needs to be improved. Premium system is applied for the authorized services according to the performance results to increase the efficiency of the performance system.

General meetings are organized with the authorized services with the participation of the top management. During these meetings, company policies and strategies are shared and studies are conducted for a sustainable cooperation by getting the opinion and suggestions of the Authorized Services.

Following the activities regarding the qualified authorized services in 2017, "Arçelik" and "Beko" brands of Arçelik A.Ş. were certified as "Customer-Friendly Brand (MDM)" by TSE (Turkish Standards Institute) as a result of the audits at the relevant departments.

Arçelik A.Ş. Spare Parts Management provides services for our customers with 236,000 different spare parts in total. Each year, spare parts range is increased by about 17,500 units. Cloud-based Microsoft Machine Learning software was deployed for better management of the planning for increasing number of product variety.

PART IV - STAKEHOLDERS

4.3. Human Resources Policy

Arçelik implements globally-accepted principles and thrives to meet the objectives of securing continued success and transfer its sustainable values to future generations. Our shared objectives in line with the vision of “Respects the Globe, Respected Globally” are to ensure that we conduct our business with integrity, create a working environment without any discrimination of unfair treatment, ensure that individuals from different backgrounds, cultures and perspectives work together to develop new ideas and solutions and create a secure and sustainable global value chain.

Human Resources Policy of Arçelik A.Ş. which had been determined in accordance with the strategies of the Company, common values and business ethics, has been documented and shared with the employees working in Turkey and in abroad subsidiaries. Human Resources Director is responsible for determination and management of the principles of the company's human resources policy, management of the relations with the employees and managing and implementing human rights principles.

Arçelik A.Ş. recruits talents based on certain criteria and within this criteria Arçelik Leadership Profile is being used covering Grow, Respect and Lead skills are as follows.

Arçelik Leadership Profile



Our fundamental principles which direct the Human Resources Policy are given below and in Human Resources practices we act in line with these principles.

- There is a global-local balance in human resources systems and practice. As an international company, local laws, practices and requirements are respected. Country's legal regulations take precedence in situations where Human Resources Policies and Practices conflict with local legislations.
- Human Resources Policy of Arçelik A.Ş. is fully aligned with the company's business strategies and also responds to future needs on top of current organizational requirements.

- All Human Resources Policies and Practices respect and support human rights and oblige the company to avoid any discrimination and create equal opportunities for its employees. Arçelik A.Ş. does not discriminate based on ethnic origin, race, language, religion, age, gender, sexual orientation, nationality, disability, culture or political affiliation. This principle is accepted company-wide and a formal complaint from the employees regarding that they have experienced any discrimination has never been received. Arçelik A.Ş. Code of Conduct and Codes of Practice, Arçelik A.Ş. Personnel Regulation and all relevant policies put forward binding rules and the company ensures that these rules are implemented to permanently prevent any discrimination and in-house physical, mental and emotional abuse likely to occur between the employees.
- Fairness, consistency and trust lies at the heart of all human resources practices implemented. In line with this principle, job definitions, salaries, criteria of performance and reward system intended for the employees are announced to the employees in accordance with the determined schedule and it's ensured that all employees are informed equally. Same principles are taken into account in the trainings provided to the employees by Arçelik A.Ş. and training programs are developed and announced to the employees in a wide variety as to address the improvement needs of all employees.
- Career plans of employees are made in accordance with knowledge, skills and competences. Annual human resources planning meetings are held in order to identify the critical positions and potential employees that would carry the company to the future, and performances of potential employees are monitored in order to support their development and make them ready for their possible future roles. There are succession plans in place for all management positions and potential employees are positioned in these plans. This helps us develop candidates to managerial positions and also prevent any interruptions in the corporate management in case of any possible changes in these positions. In 2017, 11 percent of our employees have gone through rotation, assignment and promotion processes.
- For the purpose of improving Human Resources Standards continuously, Human Resources Practices are revised systematically and regularly and in light of latest developments and the feedback received, Human Resources processes are re-structured.

- At Arçelik A.Ş., opinions of the relevant union are obtained and mutual understanding is ensured before the decisions to be taken regarding the human resources policy changes and system revisions intended for the union member employees. All of the union member employees are informed of the changes.
- Personal information of the employees is kept confidentially within the frame of the legal legislations.

Arçelik A.Ş. aims to meet the business needs during the recruitment and replacement processes in current time and in the future and equal opportunities are provided to all candidates with suitable education, knowledge, skill, competence and experience in line with the ethical principles.

Total employee number in Turkey and abroad by 2017 year-end is given in the following table.

Number of employees by 2017 year-end	Total
Turkey	16,619
Abroad	11,484
Total	28,103

The average length of service and age of employees in Turkey is 8.6 years and 34.8 years, respectively.

Approach of the company for the training and development process is that Company's performance is improved by working with continuous development principle in parallel with the company's vision and business targets. It's aimed to use the in-house resources in an efficient and effective way while planning the development needs of the employees in the current time and in future in line with the business requirements.

In 2017, our employees were given 534,065 hours of training and average training per person was 46.7 hours for monthly-rate employees, 25.7 hours for hourly-rate employees and 30 hours on average.

Arçelik A.Ş believes that organizational success is based on team work and collaboration along with the individual successes. In this direction, the company uses different development and management systems to improve the performance of the employees in compliance with the company targets. The activities in this area are explained in the Global Organization section of the Annual Report.

Arçelik A.Ş. evaluates, rewards and ensures the recognition within the company any success, invention and/or suggestion that provide benefit in order to increase the motivation, commitment and productivity of the employees, put into use the best practices and encourage the rising critical behaviors. The company determines a fair employment policy through the approach, laws and competitive understanding in compensation management.

Arçelik A.Ş. gives importance to the impact of the employee commitment on the company's business results and monitors the employee commitment regularly through the independent researches and develops improvement activities according to the research results. Annual employee loyalty survey was conducted online for all employees in 2017. Good practices that were engaged in previous years have been continued and projects were developed on fields of improvement. Based on the survey results, the focus is on recognition of the achievements of employees, supporting their career improvement, diversification of additional benefits, increasing the level of communication with the employees and training. Benefits management, award management, communication, career management, orientation, training and improvement processes were reviewed and regular meetings were held to meet the top management with the employees.

Industrial Relations

Arçelik A.Ş. respects and supports the rights of its employees to organize and form unions in accordance with the company's industrial relations policy. The company pays strict attention to maintaining the peaceful working environment it has created on the basis of mutual trust between its employees and unions and by respecting the applicable law and collective bargaining agreements. The Company takes local conditions, customs and practices, which are specific to the regions and countries in which it operates, into account in order to maintain the peaceful working environment it has created, even though these local conditions, customs and practices are not included in the agreements into which the company has entered.

Within the frame of Industrial Relations Policy, labor unions are not considered as adverse parties but as social stakeholders. Therefore, the Company always attaches great importance to be on good terms with labor unions and to act in concert. Providing better working conditions for the social stakeholders is an important goal of the Company. Accordingly, besides conforming to law, social aids such as better working conditions, occupational health and safety, maternity, death, education and marriage supports are included in collective bargaining agreements and care is taken for their implementation.

PART IV - STAKEHOLDERS

Arçelik A.Ş. provides the following social benefits to its employees in Turkey in accordance with the provisions of the collective bargaining agreements:

- 4 bonus payments every year,
- Fuel allowance,
- "Leave allowance" before annual leaves,
- "Special allowance" before religious holidays,
- Monthly child allowance,
- Childbirth, marriage, death, military service and education allowances as payments made per case.
- Transportation and daily food allowances, which are offered in-kind,
- Annual leave entitlements are specified under collective bargaining agreements. Irrespective of whether they are members of a labor union or not, the employees are entitled to annual leaves longer than those provided under the law.
- Starting positions and wages of union employees are determined based on the type of work they will perform according to the collective bargaining agreement.

The Collective Bargaining Agreement, which covers all Arçelik employees who are the member of union and is effective from September 1, 2014 through August 31, 2017, was signed in December 15, 2014. For the renewal of the collective labor agreement that expired as of 31.08.2017, negotiations on collective labor agreement for the new term have begun on 05.10.2017 between Turkish Metal Workers Union and Turkish Metal Industrialists Union (MESS), of which we are a member. The Collective Bargaining Agreement, which covers all Arçelik employees who are the member of union and is effective from September 1, 2017 through August 31, 2019, was signed in January 30, 2018.

Flextra Additional Benefits program implemented for the first time in Turkey in 2015 is a benefits model to respond to diversified needs of the employees. Needs shaped by different lifestyles of our times require that employees are offered with customized options and solutions. In 2017, 67 different product options were offered in 7 main product groups under Flextra Program, in which 87% of our monthly paid employees are enrolled.

In 2016, an Additional Health Insurance was offered to Arçelik A.Ş. employees working with unlimited time contracts and hourly rates in Turkey operations. In 2017, a total of 19,124 people including the spouses and children have benefited from the Supplementary Health Insurance.

In June 2016, Dükkan platform was launched and it is aimed at providing access only to employees for discounts on Arçelik products. Payment options included deduction from wage or credit card payment with additional discounts for employees planning a marriage. In 2017, 9,177 employees purchased 24,506 products using the Dükkan platform.

Occupational Health and Safety

Starting from the "value given to the employee" that is one of the most important factors in the corporate vision, Arçelik A.Ş. provides integrity between the Occupational Health and Safety Policy and relevant legislation and business processes and encourages the integration of the planned and systematic studies within the scope of the Occupational Health and Safety and aims to prevent the occupational accident and disease based losses and to make improvements constantly.

Arçelik A.Ş. Occupational Health and Safety Policy

Arçelik and its employees comply with all applicable national and international occupational health and safety laws and regulations and create a safe and healthy working environment in line with occupational health and safety management system based on continuous improvement. We perform our activities to

- Analyze and decrease the occupational health and safety risks arising in the working environment,
- Conduct training activities in order to develop and increase the awareness in occupational health and safety issues,
- Take measures to achieve a zero work accident rate and a zero occupational disease rate and increase productivity

accompanying the Quality and Environmental Management Systems and we strive to set a model in durable goods sector with regard to occupational health and safety efforts.

In accordance with this policy, occupational health and safety is included as a criterion among other target criteria set for departments and individuals as part of the Performance Management System. The efforts regarding the Arçelik Occupational Health and Safety Action Plan issues and projects ensure compliance with occupational health and safety legislation and aim at preventing possible occupational accidents and diseases.

In 2017, the Accident Frequency Rate, which indicates the frequency of occurred occupational accident based on the total actual working time, was realized as 4.11 with an increase of 28% and the Accident Severity Rate, which indicates the working day loss occurred due to occupational accidents based on the total working time, was realized as 0.058 with an increase of 7%.

Arçelik A.Ş. always provides guidance to its employees regarding occupational health and safety on a regular basis and encourages them to communicate among themselves and with their managers on issues related to occupational health and safety. In 2017, totally 253,368 man-hours of training on Occupational Health and Safety was provided with a comprehensive participation in all Arçelik facilities by occupational safety specialists and occupational physicians.

Adopting “zero accident rate and zero occupational disease rate” objective in terms of Occupational Health and Safety, Arçelik A.Ş. continues its efforts by involving employees at every level of the company and allocating the necessary resources to achieve desired targets.

In 2017, Arçelik A.Ş. was granted with the first prize in the category of Occupational Health and Safety at the Human Resources Management Awards organized by Turkish Human Resources Management Association (PERYON) with the “Ergonomics Project – Ergonomic System Software and Implementation” project conducted at the washing machine plant.

4.4. Rules of Ethics and Social Responsibility

The company aims to ensure customer satisfaction, offer world-class products and services of universal quality by using limited natural resources efficiently, and contribute to economic and social development. Accordingly, the company strives to be a global symbol of credibility, continuity and respectability in the eyes of all of its customers, shareholders, employees, suppliers, dealers and authorized services; in other words, all of its stakeholders.

We accept the standards established by Vehbi Koç, the founder of Koç Group, as our guiding principles;

- Our Customers are the focus of everything we do,
- Always to be the best is our ultimate goal,
- Our most important capital is our human resources,
- Our goal is to create wealth for continuous development,
- We strive to strengthen Turkish economy from which we derive our own strength,
- Superior business ethics and honest working principles are the foundations of our business conduct.

The company has based its Code of Ethical Conduct on the above mentioned principles in order to provide its employees and others who represent the Company with a guiding document that would help them when making decisions.

Arçelik A.Ş. complies with the human rights and employee rights directives set forth by international initiatives of which it is a voluntary member. The Company ensures that its approach and applications are audited by independent audit companies. The Company is a part of Koç Group which has signed the United Nations Global Compact and complies with the human rights and employment standards principles therein. The Company discloses its performance in this area for review of its stakeholders through annual and sustainability reports.

Our Company does not discriminate based on ethnic origin, race, language, religion, age, gender, nationality, disability or culture and accepts everyone as equals. This approach starts with the recruitment policy and is based on the principles of matching individuals with the right jobs, equal pay for equal work, merit-based promotion and equal opportunities for all. Respect for human rights is at the center of all human resources processes. In this sense, we provide a non-discriminative and fair working environment for our employees, implement a merit-based payment and additional benefits policy and secure our employees' rights to organize unions and engage in collective bargaining.

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We commit to act in accordance with the laws and regulations to offer equal rights and prevent discrimination throughout the value chain, secure a non-discriminative working environment and prevent “Child Labor and Forced Labor” in line with the labor legislation as well as our policies. We take due care to ensure that the policies applicable at the Company are also applicable to the relations of our employees. Our company expects from all its employees to behave in a manner that would contribute to the cultural integrity of our company and strengthening and development of its reputation and corporate structure. All of the employees, including temporary workers, are under obligation to follow the company’s Code of Ethical Conduct. This Code of Ethical Conduct is disclosed to public in detail on our Company’s website.

Code of Ethical Conduct booklet is given to Arçelik A.Ş. employees in exchange for their signatures, at the day of their employment. Also, Arçelik Code of Ethical Conduct is assigned to all our employees in the form of digital trainings, and in the course of their training, their rate of accomplishment is monitored regularly.

We attach great importance to ethics rules based on the basic principles set forth by Vehbi Koç, the founder of Koç Group, to maintain the continuity of this system. Ethics rules are in line with the personnel regulations and were issued by the commitment of the Board of Directors. Arçelik A.Ş. Ethics Commission oversees the process and implementation of ethics rules. Members of the Ethics Board include the General Manager, Assistant General Manager responsible for the issue, Human Resources Director and Legal Consultant. Human Resources Director is responsible for regulating and implementing the human rights principles. Furthermore, it is under the responsibility of the management to display the required level of effort and leadership, to announce the Code of Conduct to all employees, to ensure that the employees put required level of importance on those policies, and to ensure that the all employees act in alignment with the Code of Conduct all the time.

The company expects from all of its stakeholders to comply with business ethics and all related policies.

Code of Conduct and Core of Practice are in restructuring phase in consideration of the development, growth trend and sustainability requirements of Arçelik A.Ş.

The project was launched on the basis of preserving the structure of Arçelik A.Ş. that complies with human rights as a global player in its core business with the goal of constantly improving sustainability performance as an ever-developing and growing global organization.

The efforts for organizing the Ethics Board on a global scale, defining the operation and reporting procedures, reviewing the policies in this regard, establishing the Ethics Line are in progress and scheduled for completion in 2018.

Arçelik A.Ş. is one of the first companies to sign the corporate social responsibility Code of Conduct drafted by the European Committee of Domestic Equipment Manufacturers (CECED). The Code of Conduct secures the subscribing company to achieve a sustainable performance concerning working conditions, environmental laws and standards which are regulated by national laws and international conventions.

Furthermore, the Company has its production facilities audited by an independent audit firm within a program based on the criteria of BSCI (Business Social Compliance Initiative) and Sedex (Suppliers Ethical Data Exchange) Social Responsibility Organizations, widely accepted in EU and obtains compliance reports in consequence of these audits.

The company has adopted an approach which focuses on protecting and preserving the environment and natural resources in cooperation with its partners both during production and non-production activities while at the same time developing and manufacturing innovative products. The company monitors the compliance of its operations with all domestic and international legal obligations, which call for the protection of the environment and human health. The company regularly organizes training programs for its employees to extend the sentiment about the protection of environment and natural resources and combating with climate change and carries out projects with Public and Non-Governmental Organizations in Turkey to raise awareness of the public and maintains its support for carried out projects and efforts.

The Company carries out many different projects in the countries, where it operates, in the fields of education, sports, culture and art to support social development. Acting with corporate citizenship awareness, the Company provides the sustainability of the projects thanks to voluntarily supports of its employees and business partners. The policies and projects implemented by the Company are included in the explained in the “Social Responsibility” sections of the Activity Report.

The Company expands its global presence day by day in line with its vision and continues to develop by integrating the sustainability into the processes with the conscious of its responsibilities. Sustainability approach of the company is to act by looking after the social, economic, environmental and ethical dimensions of



its operations, to follow-up these dimensions by integrating them into the corporate business targets and to manage its operations with sustainability principles within the frame of corporate policy and strategies. The company evaluates the risks and opportunities regarding the sustainability and expectations of the stakeholders as important inputs for its operations.

The highest level of responsibility for the sustainability management belongs to the Sustainability Committee in the company. Sustainability Committee formed by Arçelik A.Ş. Top Management bears the mission of determining the corporate sustainability and climate change policy and strategies, ensuring integration with the Company's business processes, monitoring the performance, increasing the efficiency and chairing Sustainability Work Groups. The Sustainability Committee meets twice a year, evaluates Arçelik A.Ş. Sustainability Activities End-of-year Report and sets the objectives for the next year. The Sustainability Committee is responsible for reporting important issues to the Board of Directors. In 2017, a Board Member of the Company was assigned to inform the Board on the activities of the Sustainability Committee. 8 working groups were established to ensure implementation and deployment of Sustainability Committee decisions and report the related developments. These are Environmental Coordination, Energy Coordination, Climate Change Coordination, Green Chemistry Coordination, Occupational Health and Safety, Human Rights and Business Ethics, Value Chain Management and Sustainability Reporting Committees.

With the aim of presenting its priorities, practices and business results in the field of sustainability to its stakeholders in an efficient and transparent way, Arçelik A.Ş. publishes an annual "Sustainability Report" in accordance with Global Reporting Initiative (GRI) Reporting Principles since 2008. Arçelik A.Ş. 2016 Sustainability Report including the areas of "Management Approach", "Respect for Human and Employee Rights", "Environmental and Energy Management", "Management of Natural Resources and Waste Management", "Sustainability Management in the Value Chain" and "Social Development" was prepared at GRI Standards core application level. The Company's efforts on climate change are explained in the Annual Report's "Corporate Responsibility-Environmental Approach to Products and Production" section.

Arçelik A.Ş. is listed in Borsa Istanbul (BIST) Sustainability Index created on 04.11.2014. Arçelik A.Ş. shares the Annual Report and Sustainability Report with public through the corporate website at www.arcelikas.com.

SECTION V: BOARD OF DIRECTORS

5.1 Structure and Formation of Board of Directors

Members of Board of Directors (MBD)

MBD Name-Surname	Title	Independence Status	Date of Assignment	Period of Duty	Functions in Board of Directors and Committees	Tasks out of the Company
Rahmi M. Koç	Chairman	Not Independent Member	23.03.2017	1 year	Chairman of the Board, Chairman of the Executive Committee	Board Membership for Group and Non-group Companies
Ömer M.Koç	Deputy Chairman	Not Independent Member	23.03.2017	1 year	Deputy Chairman of the Board, Member of Executive Committee	Board Membership for Group Companies
Semahat S. Arsel	Member	Not Independent Member	23.03.2017	1 year	Board Member, Member of Executive Committee	Board Membership for Group Companies
Ali Y. Koç	Member	Not Independent Member	23.03.2017	1 year	Board Member, Member of Executive Committee	Board Membership for Group Companies
Levent Çakıroğlu	Member	Not Independent Member	23.03.2017	1 year	Board Member	Board Membership for Group Companies
Robert Sonman	Member	Not Independent Member	23.03.2017	1 year	Board Member	Board Membership for Non-group Companies
Fatih K. Ebiçlioğlu	Member	Not Independent Member	23.03.2017	1 year	Board Member, Member of Risk Management Committee	Board Membership for Group Companies
Hakan H. Bulgurlu	Member, General Manager	Not Independent Member	23.03.2017	1 year	Board Member	Board Membership for Group Companies
Kutsan Çelebican	Member	Independent Member	23.03.2017	1 year	Board Member, Chairman of the Audit Committee	Independent member of the board of directors for Koç Holding A.Ş. and Tüpraş A.Ş.
Tunç Uluğ	Member	Independent Member	23.03.2017	1 year	Board Member, Chairman of Corporate Governance Committee	Independent member of the board of directors for Aygaz A.Ş.
Mehmet Barmanbek	Member	Independent Member	23.03.2017	1 year	Board Member, Member of Audit Committee, Member of Corporate Governance Committee	Independent member of the board of directors for Ford Otomotiv Sanayi A.Ş.
K. Kaynak Küçükpınar	Member	Independent Member	23.03.2017	1 year	Board Member, Chairman of Risk Management Committee	

The above-table lists information on non-executive Board Members, except for the General Manager Hakan H. Bulgurlu, as defined by the CMB Corporate Governance Principles.

As per the Articles of Association, the activities of the Company are carried out by a Board of Directors that compose of at least five members who will be elected with the resolution of General Assembly within the framework of Turkish Commercial Code and the regulations of Capital Markets Board. 23.03.2017 dated General Assembly of the Company has taken a resolution that the Board of Directors shall compose of 12 members together with 4 independent members.

In accordance with the Structure of Board of Directors regulation included in the Article 4.3 of Capital Markets Board's Corporate Governance Principles, arrangements that are required for including independent members in the Board of Directors, have been accepted at 29.03.2012 dated General Assembly by making necessary amendments in the Articles of Association.

The Board Members are determined in such a way to function efficiently and in a constructive manner, make quick and rational decisions and organize the activities of the committees effectively.

Within the scope of 395th and 396th Articles of Turkish Commercial Code, the approval regarding the Board Members to carry out the activities which are included in the company's field of activity on their own or behalf of others and to participate in the companies that carries out such activities has been obtained at 23.03.2017 dated General Assembly.

Tasks of Board Chairman and General Manager are performed by two different persons. The Company pays attention that the Board Members have enough time to deal with the Company's activities; however there is no restriction for them to handle other task or tasks apart from the Company. Especially since the business experiences and sector specific knowledge of independent members have a significant contribution to the Board of Directors, such restriction is not deemed necessary. Prior to General Assembly, personal background as well as previous positions of the member is submitted for shareholders' information. The Annual Report provides the resumes of Board Members, General Manager and Assistant General Managers.

Tasks of Candidate Nomination Committee and Compensation Committee are carried out by Corporate Governance Committee in our company. Number of independent member nominees submitted to the Corporate Governance Committee for General Assembly dated 23.03.2017 is 4, independence declarations and resumes of these persons were evaluated in the Resolution of the Board of Directors dated 16.01.2017 of Corporate Governance Committee dated 17.01.2017 and it was decided that all of them are determined to be independent member nominees. By getting the approval of Capital Market Board through the letter dated 07.02.2017 for 4 independent member nominees (Kutsan Çelebican, Tuğ Uluğ, Mehmet Barmanbek ve Kadri Kaynak Küçükpınar) and these 4 nominees are selected as independent members of board of directors for 1 year by the General Assembly dated 23.03.2017. There isn't any situation occurred removing the independence within the activity period for 2017.

Following the General Assembly meeting dated 23.03.2017 in which Members of the Board of Directors are selected, Chairman and Deputy Chairman of the Board of Directors are determined to decide on the assignment of the duty.

The entire of the members of the Board of Directors have worked professionally in various industries for long years and they are experienced. The company benefits from the accumulation of knowledge and experiences of the members of the Board of Directors at the highest level. Members of the Board of Directors can share and express their opinions freely away from any effect.

We believe that ensuring the diversity of accumulation of knowledge, experience and opinion before the Board of Directors will make positive contribution to the efficient operation of the Board of Directors and to the company activities. Our evaluation studies are still ongoing to determine a target ratio for the woman members of the board of directors that is a tool to ensure that different opinions are represented in the Board of Directors. Currently, Ms. Semahat S. Arsel participates in the Board of Directors as woman member in compliance with the Corporate Governance Principles.

SECTION V: BOARD OF DIRECTORS

5.2. Operating Principles of Activity of the Board of Directors

Board of Directors holds meeting when it is required for the activities of the Company. In 2017, Board of Directors had 2 meetings and took 30 decisions. Independent board members have approved all resolutions. Different opinions expressed in the meetings of Board of Directors and reasons for counter votes are registered in decision record. Detailed reasons of the members who voted against are disclosed to the public. In the Board of Directors, each member has one voting right. However, in the meetings of the Board of Directors held in 2017, no disclosures on this matter have been made to public since there was no such opposition or expressed different opinion.

The Agenda of the Board of Directors are determined by the notification of matters that it is clearly decreed to be concluded by the resolution of the Board of Directors within the Company's Article of Association, made by related departments to Company's Top Management and the Board Members. In addition, the Agenda of the Board of Directors are also determined by the notification of any Board Member made to the Top Management of the Company about taking a decision on a matter of high concern. The subjects desired to be discussed in the meeting of the Board of Directors are collected at the department of Assistant General Manager, Finance and Accounting and the agenda is determined by consolidation.

Arçelik A.Ş. has appointed Assistant General Manager, Finance and Accounting for determining the agenda of Board of Directors' Meetings, issuing resolutions of Board of Directors, informing Board Members and providing communication.

The meetings of the Board of Directors are held in the headquarters of the Company or in a suitable place where the headquarters are located. Significant resolutions of the Board of Directors are announced to the public by Public Disclosure Platform (PDP) and are posted on Company's website in both Turkish and English.

The company has subsidiaries and affiliate companies. Since we believe that it will be for the benefit of the Company, to have the Board Members manage these companies, there are no restrictions on this matter.

The regulations of Company's Board Members are clearly determined in the Articles of Association. Authorities are included in the Company's signatory circular in more detail.

The Board of Directors takes a leading part in maintaining efficient communication among shareholders, settling and resolving disputes and for this purpose the Board of Directors works in close cooperation with Corporate Governance Committee and Shareholders Relation Unit.

"Manager Liability Insurance" is available for the members of the Board of Directors and top managers in our company.

The Board of Directors oversees the Company's activities and evaluates any possible conflict of interests as well as the outcome of such conflict in terms of the Company and takes the course of action to safeguard the interests of the Company. The Board also evaluates the compliance of related party transactions with the applicable regulations and considers the risk of misconduct with due diligence.

5.3. The Number, Structure and Independence of the Committees Established Under the Board of Directors

According to Articles of Association, the Board of Directors may establish advisory, coordination, audit and similar nature committees or sub-committees composing of its members and/or non-members on the subjects it deems suitable provided that relevant legislation provisions are followed.

In the election of members of committees established after 23.03.2017 dated Ordinary General Assembly, the provisions specified in Article 4.5 of CMB's Corporate Governance Principles were followed.

"The Audit Committee" in charge of ensuring reliable fulfillment of duties and responsibilities of the Board of Directors was established. The Audit Committee regularly carries out its activities in compliance with Capital Markets Regulation and CMB's Corporate Governance Principles. All members of the Audit Committee have been elected from among independent board members. This Committee was composed of 2 members and Kutsan Çelebican has been appointed as the Chairman and Mehmet Barmanbek has been appointed as the member. An in-house Audit Committee has been established for the purpose of auditing the operation of accounting and reporting systems to be in compliance with related law and regulations, public disclosure of financial statements, the operation and efficiency of internal audit system and it has held 4 meetings in 2017.

In accordance with the Corporate Governance Principles issued by Capital Markets Board, an in-house Corporate Governance Committee has been established for the purpose of monitoring the compliance of the Company, performing activities for improving the compliance and providing advices to the Board of Directors. Tasks of Candidate Nomination Committee and Compensation Committee are also carried out by Corporate Governance Committee. The chairman and one member of this committee were elected from among independent board members on April 3, 2017. Tunç Uluğ has been appointed as the Chairman of the Corporate Governance Committee and Mehmet Barmanbek and Investor Relations Department Manager Polat Şen were appointed as members. The Corporate Governance Committee has held 6 meetings in 2017.

From among the independent members, K. Kaynak Küçükpınar has been elected as the Chairman and Fatih K. Ebiçlioğlu has been appointed as the member of Risk Management Committee which has been established for the purpose of early detection and evolution of strategic, operational, financial and all other miscellaneous risks that may affect our Company, calculating the effects and probabilities, managing these risks in accordance with the Company's corporate risk taking profile, reporting, considering in decision-making mechanisms and accordingly providing advices and suggestions to the Board of Directors for creating and integrating efficient internal control systems. The Risk Management Committee has held 6 meetings in 2017.

In order to offer efficient coordination between the Board of Directors and the management structure, an Executive Committee has been formed, tasked with increasing the efficiency of the Board of Directors, ensuring efficiency in the subjects of business development and investment in areas aligned with strategic aims, and to offer suggestions and recommendations in that respect. As the Board of Directors could not convene in a time and frequency required, the aim of this committee is to inform the Board of Directors by following up the Company as well as industrial improvements closely when required; to ensure coordination between the Corporate management structure and the Board of Directors; to develop proper strategies for the Company and to make recommendations for the efficiency of the activities. Rahmi M. Koç has been appointed as the Chairman of the Committee of Execution and Semahat S. Arsel, Ömer M. Koç, Ali Y. Koç and Caroline N. Koç have been appointed as the members.

The duties, operation principles and the members of these committees were disclosed to the public by posting on the Company's website (www.arcelikas.com).

SECTION V: BOARD OF DIRECTORS

5.4. Risk Management and Internal Control Mechanism

Arçelik A.Ş. Board of Directors conducts its businesses in a transparent, accountable, fair and responsible manner. A Chairman and a Vice Chairman are elected by and among the Board Members. Also, Chairmen and Members of Board committees are elected. Furthermore, the General Manager participates in the Board of Directors as the executive member.

Board of Directors establish and review the efficiency of risk management and internal control systems that would minimize impacts of risks that may be imposed on company interests, especially those of the shareholders.

With the decision taken by Arçelik A.Ş. Board of Directors at the meeting on 16.07.2010 for the purpose of ensuring efficient operation of committees within the body of Board of Directors in accordance with Article 378 of Turkish Trade Law number 6102 ad Corporate Governance Communique of Capital Market Board; a Risk Management Committee was formed in order to carry out activities with the aim of early identification of risks that may jeopardize the existence, development and continuity of the company, application of relevant actions concerning identified risks and managing risks. Mr. K. Kaynak Küçükpınar, Independent Member of the Board of Directors, is the chairman of this committee. Other member of the committee is Mr. Fatih K. Ebiçlioğlu, a member of the Board of Directors.

The Risk Management Committee convened 6 meetings in 2017. The Risk Management Committee's task is offering proposals and recommendations to the Board of Directors on early detection and evaluation of risks which may affect the company, determination of their impacts and possibilities, managing and reporting these risks in accordance with the company's risk taking profile, taking measures against detected risks and establishing effective internal control systems.

Corporate Risk Management Directorate under the Assistant General Manager of Finance and Accounting uses the risk management systems to manage, coordinate and supervise the strategic, compliance, external, financial and operational risks which may affect the Company and reports them to the Risk Management Committee.

Internal Audit Department, which is formed under the Assistant General Manager of Finance and Accounting for the purpose of healthy execution of internal auditing mechanism, reports information to the Auditing Committee at the meetings held during the year. Committee constantly supervises the execution and effectiveness of system and presents to Board of Directors the issues and suggested solutions regarding the risk management and internal control mechanism when required.

5.5. Strategic Targets of the Company

The Board of Directors of the company keeps the risk, growth and return equilibrium of the Company at an optimum level through the strategic decisions taken and manages and represent the Company by primarily looking after the Company's long-term interests with a smart and cautious risk management approach.

The Board of Directors determines the strategic targets of the Company, identifies the needed human and financial resources and audits the performance of management.

The Board of Directors audits the compliance of the Company's activities with legislation, Articles of Association, internal regulations and created policies.

Mission and Vision as well as Main Business Targets of the company are indicated below:

The mission of the company is to develop, manufacture, offer and provide products, which meet the customer needs by going beyond their expectations, make life easier and which are affordable, user-friendly and reliable, to provide after-sales services and continuously develop and grow in target markets by ensuring the satisfaction and long-term loyalty of the customers and employees and utilizing the resources in most efficient manner and meeting the expectations of stakeholders in line with corporate values, targets and strategies of Koç Group.

The company has adopted the vision of "Respects the Globe, Respected Globally". Company "Respects the Globe" because it is environmentally friendly, respects human beings and carries responsibility. The Company is "Respected Globally" because it always aims beyond the highest.

The Company's main business goals are as follows:

- Realizing sustainable growth and increasing our share in the current markets and getting into new markets
- Perpetuating the profitability level that will enable sustainable growth
- Being R&D, innovation, quality, design, brand and customer oriented
- Improving the capabilities for offering pioneering, innovative and environment and climate sensitive products, solutions and technologies during the product life cycle to provide added value for customers and society
- Developing and retaining global organization and capabilities by managing the differences with human-oriented approach.

The Board of Directors evaluates and approves the Company's vision and main business goals. These goals are shared with the public in the annual reports, on the company's website and through meetings or statements by means of various communications channels as well as PDP.

As per the Company's Articles of Association, during the Board Meetings, which are held periodically, Company's targets and performed activities are followed as also covering previous period performances. The current situation of the Company is revised and in case it is deemed necessary in consequence of current situations, new targets and strategies are developed.

5.6. Financial Rights

Covering every kind of right, interest and remuneration, which are provided to the Board Members and top managers and the criteria and remuneration policies that are used to determine these, the "Remuneration Policy for the Board Members and Top Managers" of our Company has been submitted to the examination of our shareholders on our website through the "Information Document" issued three weeks prior to 29.03.2012 dated Ordinary General Assembly and put into practice upon the approval of the General Assembly. The aforementioned policy which discusses 2016 activities and disclosed to the public through our company's web site, is also put on the agenda of Ordinary General Assembly in which 2017 activities shall be discussed and will be submitted to the opinion of the shareholders. Payments made within the framework of Remuneration Policy for the Board Member and Top Managers are evaluated by Corporate Governance Committee and the Board of Directors every year. In the footnotes of our financial statements, the payments made to the Board Members and top managers collectively are announced to the public in parallel with common practices. There is no transaction that may cause conflict of interest such as granting loans and credits to our Board Members or managers, giving guarantees in favor of them.

Stock options or payment plans based on Company's performance are not utilized for the compensation of Independent Board Members.





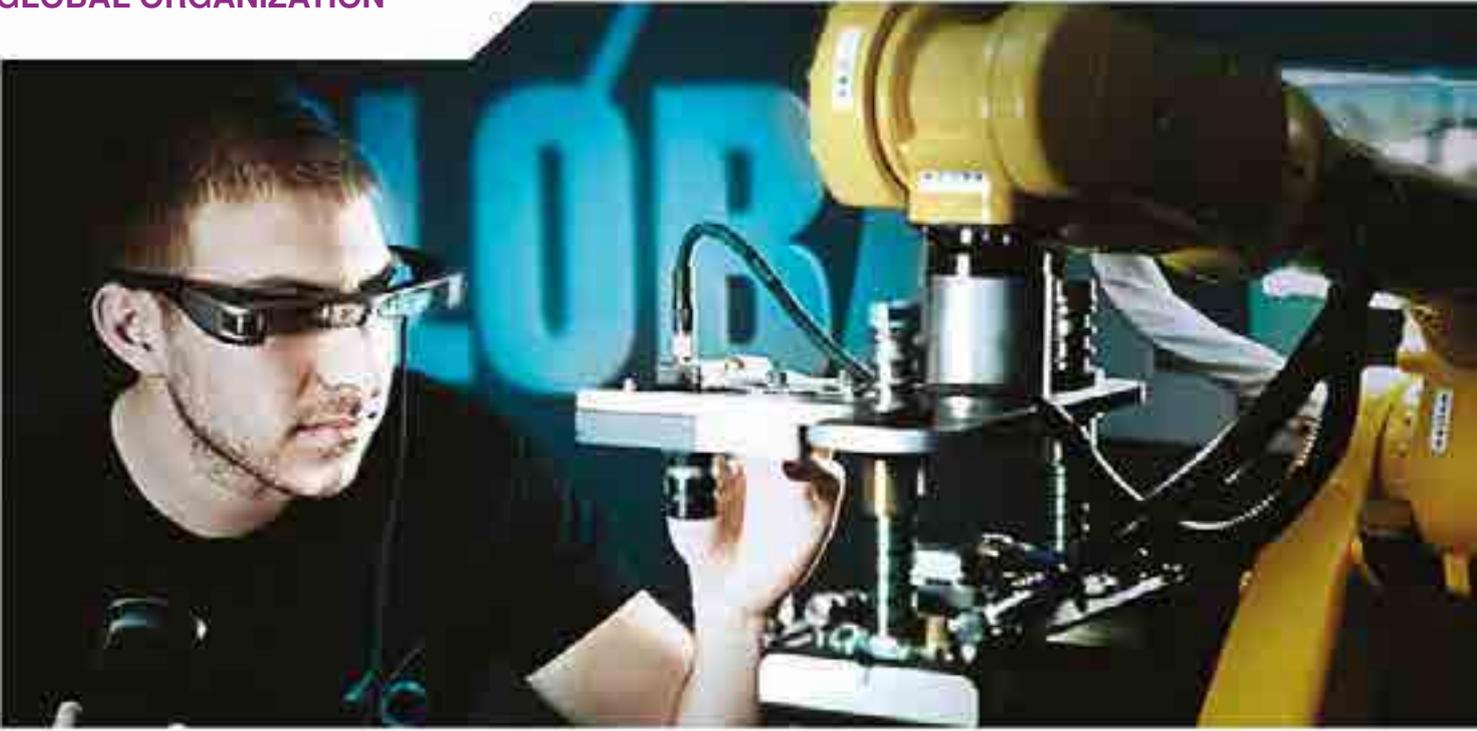
Global Organization

“

Arçelik A.Ş. considers its employees as its most valuable asset and constantly updates its organization with innovative human resources practices by combining diversities for a shared objective. Arçelik A.Ş. is well aware of the role of its employees in its global growth and supports them in their careers by offering processes for personal and professional improvement.

”

GLOBAL ORGANIZATION



30,000 employees around the world

Around **6,000** applications to internship programs

Annual engagement index: **62.4**

Number of managers that participated in **Managing Diversity & Collaboration / Change / Visionary Leadership** and **Coaching** trainings: **346**

Total training provided for 400 engineers within the scope of **TechPro Akademi**: **4,000** days

Arçelik A.Ş. focuses on sustainable growth with the support of its competent workforce and brings diverse skills together in pursuit of a shared objective to update its organization with innovative skills. The Company aims at improving its strength by recruiting highly-qualified young talent and experienced professionals with the belief that individual achievements are at the core of organizational achievements. In line with this vision, various skill management systems are used by Arçelik A.Ş. to determine and evaluate the performance and competences of employees.

Global Organization & Talent Management

Arçelik A.Ş. continues to strengthen its global position through acquisitions, new investments and supporting current investments. As of the end of 2017, Arçelik A.Ş. has operations in 34 countries with 18 production plants in 7 countries and 30,000 employees. Arçelik A.Ş. supports its global growth with a skilled work force and designs and implements global systems and processes to support the improvement of its employees' skills.

Employing the Right Talent for the Right Job

In 2017, Arçelik A.Ş. actively used social platforms including Facebook and LinkedIn in addition to career web sites to attract talents and maintain a sustainable communication with potential candidates. The number of Arçelik Facebook followers has reached to 330,000 with an increase by 148% when compared to previous year. The number of Arçelik LinkedIn followers has reached to 90,000 with an increase by 33% when compared to previous year. The result of Talent Brand Index, which shows the LinkedIn quality score, confirms that the interest of targeted candidates in Arçelik has increased. The score increased from 26% in 2016 to 36.5% in 2017.

With the FreshStart Internship Program, Arçelik A.Ş. helps university students be prepared to business world and high-potential students gain experiences that will lead their careers. In 2017, a strong presence was achieved at university campuses within the scope of Fresh Start Internship Program and new graduate recruitment programs. In this context, 19 events were conducted and around 6,000 internship applications were received. Furthermore, Arçelik A.Ş. conducted University-Industry collaboration activities within the scope of protocols signed with universities. In 2017, 97 students worked at Arçelik A.Ş. within the scope of this program that focused on graduation projects for university students or thesis works of MA and PhD students.

Sustainable Employee Loyalty

Being aware of the fact that loyalty of an individual to the organization is an determining factor of happiness, Arçelik A.Ş. employs Aon Hewitt, an independent employee loyalty research company, to carry out an Employee Loyalty Survey every year. In 2017, 81% of Arçelik A.Ş. employees responded to the Employee Loyalty Survey. The survey indicated that Arçelik A.Ş. Loyalty Index has increased by 23.3 percent to 62.4 when compared to 2016. The Loyalty Index has increased by 27.9 percent to 62.7 percent for hourly-rate employees and by 0.7 percent to 61.7 for monthly-rate employees. These figures are the highest in the last five years.

Arçelik A.Ş. acts with the motivation of implementing new projects and developing practices that create satisfaction in accordance with the feedback from its employees for the purpose of increasing employee satisfaction and loyalty. With this perspective, Yammer was launched in 2017 as a social platform allowing interactive communication for the employees. This platform can also be downloaded as an app to mobile phones. The Cheering for You reward management program, which recognizes achievements and projects of the employees continued in 2017. Within the scope of the program, 5777 employees were rewarded in

2017. With the annual “Invention Day”, employees who contribute to the technology know-how of Arçelik A.Ş. are rewarded. In 2017, 506 inventors were awarded in this scope.

In 2017, a Reverse Mentorship program was launched where employees with minimum 1 year of experience and under the age of 30 offer mentorship to the more experienced staff. The purpose of the Reverse Mentorship program is to ensure that the younger staff members have direct access to corporate and management experiences. Other objectives include ensuring that managers learn about what shapes the lives of new generation and keep up with the developments in their respective areas.

In 2017, many internal communication activities were conducted to increase the level of loyalty of hourly-rate employees. Senior managers regularly visited plants within the scope of the said communication activities. The questions that employees asked during the meetings with employee groups are answered by the General Manager/Assistant General Manager.

Arçelik A.Ş. supports women employees through the Women Impact program. Arçelik A.Ş. undersigns many activities in order to strengthen the role of women in business life, support them throughout their careers, increase employment rates and reinforce the ties and support system among women employments of Arçelik. In this context, “She Mate” mentorship program was launched to help women for their return and adaptation to work after coming back from maternity leave. 38 mentors and 27 mentees are covered by the program. Arçelik A.Ş. also launched Women in Leadership and Integral Leadership special development programs to support the leadership development of women employees.

Categories and the number of employees rewarded within the scope of the “Cheering for You” reward management program in 2017:



GLOBAL ORGANIZATION

Restructuring and Continually Improving the Global Organization

Arçelik A.Ş. constantly updates itself and industry of activity within the framework of innovation approach in an effort to become a trusted solution partner for digital households. Arçelik A.Ş. also reviews its organization to speed up this journey.

Arçelik A.Ş. established a new regional organization that will provide a lean and agile organization by evaluating the current capabilities of the markets and its organization in order to operate in more efficient and more effective structures.

Global markets were divided into regions and responsibilities were shared among senior managers in order to better understand market dynamics and implementing a more engaging management culture that strengthens collaboration.

Within the scope of this process;

- The current distribution of roles among employees was reorganized. Teams were created to gain expertise on the existing regions and markets by operating on the basis of innovation and effectiveness towards different markets and processes without adding new layers to the organization.
- A process management program was initiated, covering the correlation between all processes of Arçelik for the purpose of simplifying processes and decision-making mechanisms. The purpose of the program is to create a digital clone of the company. The digital clone will help Arçelik transform into a data-based, transparent and agile organization that will help Arçelik adapt competition and new business models in addition to institutionalization of information and operation.

Focusing on Best Employee Experience

A Digital Transformation program is being implemented also for Human Resources processes and infrastructure to make the ties of employees with other individuals, the Company and business processes transparent and perpetual. This program is implemented on the entire lifecycle of an employee on a wide range from employer's brand communication to attracting external talents and termination of employment.

Human Resources Infrastructure for the Global Organization

Global penetration efforts are conducted in parallel with the global organizational growth of Arçelik and new affiliates in foreign markets. In 2017, the affiliates to take the first steps in Digital Transformation in Human Resources were Czechia and Serbia.

	2015	2016	2017*
Foreign Employee Rate	21.3%	98.0%	98.1%
Total Employee Rate	73.8%	99.3%	99.3%

- * In 2017, Dawlance-Pakistan was not included due to integration efforts in progress.

Digitalization in Talent Acquisition

- Digitalization of Recruitment Process project was launched in May 2017 for Turkey organization. This project resulted in operational efficiency and acceleration of recruitment processes, reduction of paper use, and digitalization of the system for employees to propose candidates as well as candidate experience application phase. In addition to sharing open positions and receiving applications, the online interview platform eliminated the constraints of time and place, and accelerated the process. Candidate can check the status or the result if his/her application online and update it whenever he/she wants.
- In November 2017, “test application” was launched as the second phase of digitalization of the candidate experience. This application allows candidates participate in evaluations and tests without coming to an Arçelik location.

360 Assessment and Development Planning: 2752 employees were included in the process and 1211 of them (44%) created their development plans under this development planning platform. 142 employees used and obtained feedback from 1366 reviewer by using the 360-degree competence evaluation tool developed to support the development of employees and give them feedback in line with Arçelik leadership skills.

Learning in Digital Environment: Various video and collection solutions were offered to the employees via LMS. 323 employees benefited from 26 collections that feature 636 development activities. The online library that consists of 53 short videos was accessed 1043 times in 2017. The library can also be accessed via mobile applications. Personal Data Protection, Information Security and Company Orientation Programs are also made available online for the employees.

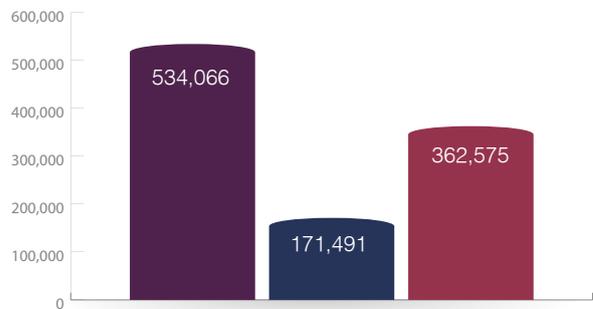
Notification-Based Performance Management: Infrastructure preparations were completed for launch in 2018 of the next generation performance management system that operates on the basis of constant notifications to support high-performance and learning culture.

Human Resources in Mobile Environment: Being an important part of HR Digital Transformation program, mobile applications help ensure continuity of processes and communication between employees, and make global organization independent of time and place by eliminating delays caused by time zones. The Success Factors mobile app launched in 2017 enables approval of positions and candidates via mobile app. This app also enables viewing organization chart, planning personal development activities, viewing calendars, participating in e-learning courses and processes such as performance management on the go.

Creating a Culture of High Performance and Continuous Learning

A total of 534,065(*) hours of training was provided within the scope of training solutions managed under three main categories to support the expertise and/or leadership development of the employees.

2017 Total Training Hours
Monthly-rate and Hourly-rate



Total Training Hours: Monthly-rate: Hourly-rate:

Monthly-rate Man/Hour: 46.7
Hourly-rate Man/Hour: 25.7

*Includes the training hours for Turkey operations.

GLOBAL ORGANIZATION

Leader In You:

Supporting the leadership line is a priority for Arçelik A.Ş. In this sense, 102 managers assigned to manage a team for the first time started off with the Leadership Journey program. 38 mentors/mentees were matched within the scope of the program. 40 senior managers received Leadership Impact, Team Efficiency and Visionary Leadership trainings within the scope of Leadership Impact program launched to support senior management's role in creating a leadership culture. 28 employees participated in Women Leadership program launched to empower women leaders. 346 managers participated in Managing Diversity & Collaboration / Change / Visionary Leadership and Coaching trainings conducted in line with the company strategies.

The managers also have the opportunity to participate in leadership development programs organized by Koç Holding. In 2017, 4 managers participated in Be Global Silicon Valley program and 2 managers participated in Leadership Development Programs (AMP/ PLD) of the Harvard University. 43 managers was included in Harvard Business School Online trainings in collaboration with Koç Holding. 28 managers participated in Prosci Change Management certification program conducted in collaboration with Koç University.

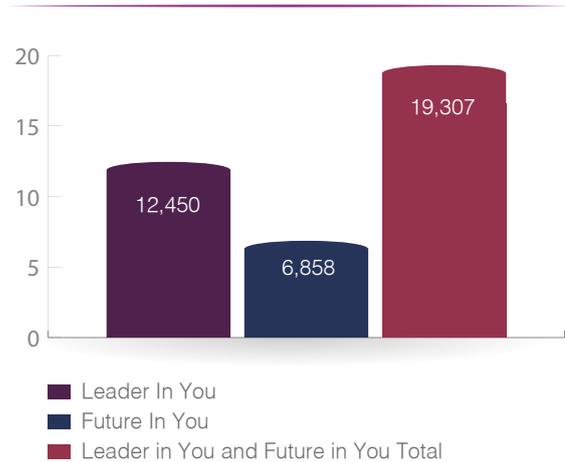
Future In You:

6,858 hours of training was provided within the scope of programs that aim at improving the potential of employees and helping them take their career journeys to the next level.

In 2017, 49 employees from the global organization participated in Global Manager program that was designed in collaboration with Koç University to support the candidates for international assignments and help them prepare to their new roles.

37 employees benefited from 118 hours of development coaching within the scope of Leadership Insight designed for employees, who are considered as potential managers of the future.

2017 Leader in You & Future in You Training Hours



Talent In You:

Professional and competence trainings as well as foreign language development solutions for all hourly-rate and monthly-rate employees in parallel with their technical and personal development, orientation programs for fast adaptation of new recruits and various hobby and social responsibility trainings are provided to employees under this category. In addition to activities on progress, priorities on the focus of this year included programs on the development of competencies in line with Industry 4.0 in production technologies, and improvement of digital and next generation competencies and critical lines of expertise.

TechPro Akademi

TechPro Akademi works for supporting a multidisciplinary working environment, and ensuring that all engineers, experts and senior experts working in production and technology group are equipped with the competencies of the future to compete globally. In 2017, 400 engineers received 4000 days of training (8.75 man/day) within the scope of TechPro Akademi in collaboration with Koç University.

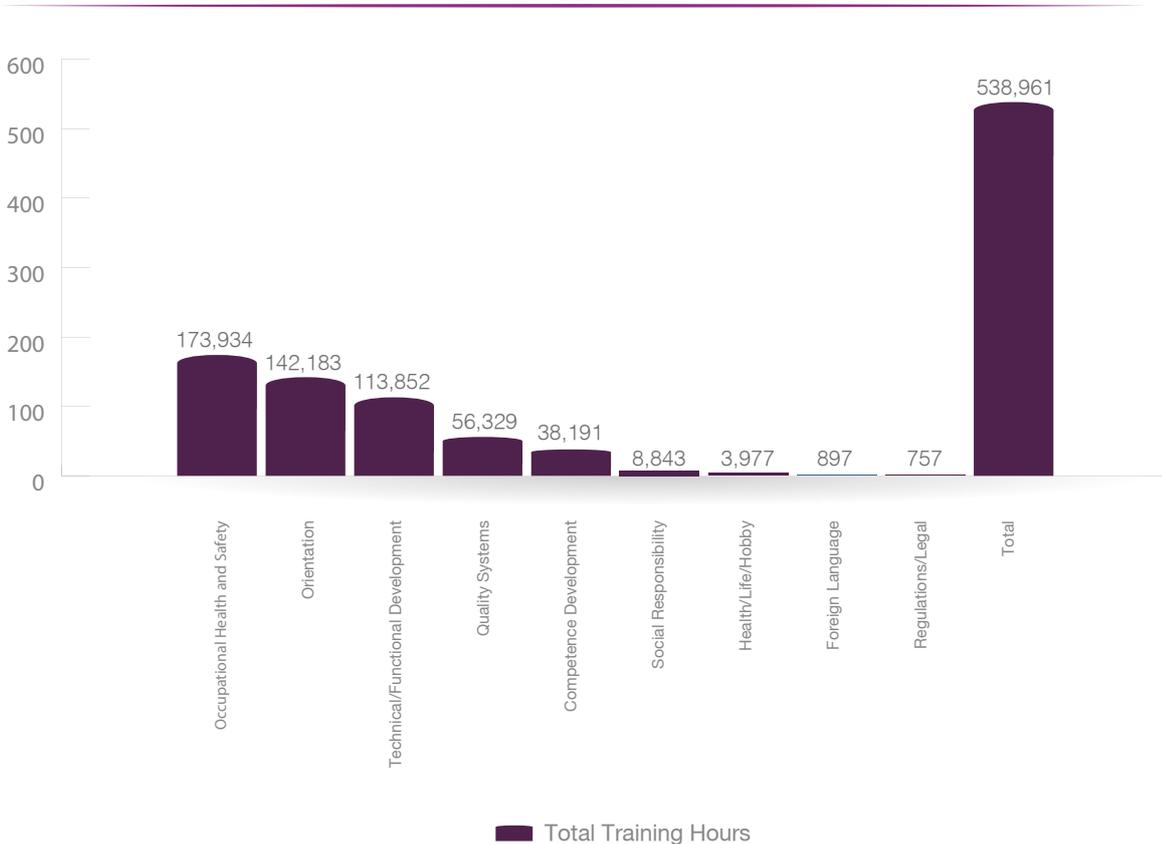
Digital Transformation Competence Activities

A roadmap was created to improve the digital competencies of the employees in line with the digital transformation strategy of the company. 1200 man/day of training was provided to prepare, strengthen or transform these competencies.

Critical Expertise Project

The aim of the project is to increase loyalty and motivation, and reveal the potential and performance of experts by defining the expertise path of company as the career route. The pilot implementation was deployed in the R&D departments.

Talent In You 2017 Total Training Hours



GLOBAL ORGANIZATION

Business Excellence

Arçelik A.Ş. Business Excellence Approach is implemented as a whole body of systems, through which business processes and business results are managed on the basis of sustainability and the current vision. In accordance with the goal of achieving excellence, effectiveness, efficiency and continuity of all business processes are improved and a total management approach was adopted on the basis of the following management systems and methodologies.

- ISO 9001 Quality Management System
- ISO 14001 Environmental Management System
- ISO 50001 Energy Management System
- ISO 14064-1 Greenhouse Gas Reporting System
- ISO 10002 Customer Satisfaction Management System
- ISO 27001 Information Security Management System
- ISO 28000 Supply Chain Security Management System
- ISO 17025 Laboratory Management System
- OHSAS 18001 Occupational Health and Safety Management System
- BSCI (Business Social Compliance Initiative) Social Responsibility System
- Sedex (Suppliers Ethical Data Exchange) Social Responsibility System
- CIPS (Chartered Institute of Procurement & Supply) Procurement and Supply Management
- PCI-DSS (Payment Card Industry – Data Security Standard)
- ISO 20000 Information Technologies Service Management System
- ISO 22301 Business Continuity Management System
- TQM/GEN/T02 (Mastercard-Terminal Quality Management Compliance)
- EFQM (European Foundation for Quality Management) Excellence Model
- Six Sigma (Process Improvement)
- Total Productive Maintenance (TPM)

Arçelik A.Ş. has started quality efforts through implementation of Quality Circles in the early 1980s. These efforts are then incorporated and developed under Total Quality system in the early 1990s. Arçelik A.Ş. adapts the process excellence (Total Quality Management) approach for all processes until the final product and is granted with European Foundation for Quality Management (EFQM) Quality Achievement and TU-SIAD - KalDer (Turkish Quality Association) Quality Grand Awards.

All the management systems of Arçelik A.Ş as defined by international standards are certified by independent auditing companies. Compliance with standards is evaluated by regular audits and continuously improved.

Arçelik A.Ş. deploys Six Sigma Methodology in all business processes to strengthen its international competitive edge and reach excellence by maximizing efficiency. The purpose of Six Sigma practices at Arçelik A.Ş. are,

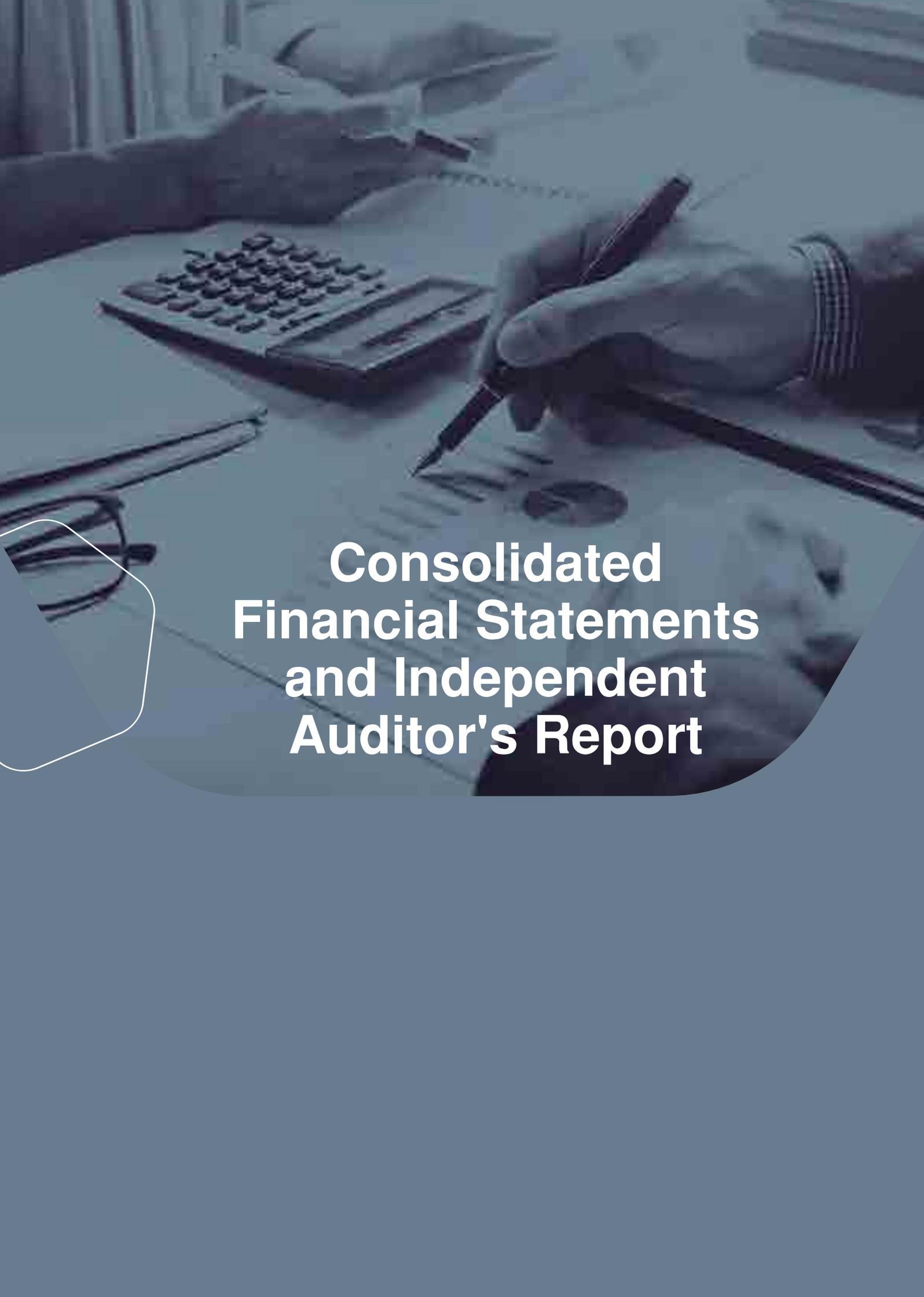
- Improving the processes,
- Making processes transparent and manageable,
- Establishing a decision-making mechanism based on data,
- Establishing a platform that constantly increases profitability,
- Establishing harmony between organization and process goals,
- Establishing customer-orientation,
- Establishing a common language and strengthening creativity.

Being a productive maintenance management based on a team work that covers all levels, units and functions of the organization, the Total Productive Maintenance (TPM) has been implemented by Arçelik A.Ş. since 1996. The purpose of TPM is to eliminate all factors that has a direct or indirect negative impact on productivity and make the most effective use of resources.

Local and foreign production plants of Arçelik A.Ş are audited and compliance reports are issued by independent auditing companies in accordance with the criteria of social responsibility organizations such as BSCI (Business Social Compliance Initiative) and SEDEX (Suppliers Ethical Data Exchange) that are widely accepted in European Union.





A photograph of a person's hands writing on a document with a pen. The scene is set on a desk with a calculator and a pair of glasses. The image has a blue tint and a white outline on the left side.

**Consolidated
Financial Statements
and Independent
Auditor's Report**

BOARD OF DIRECTORS 2017



Rahmi M. Koç
Chairman

A graduate of Johns Hopkins University in Business Administration, he joined Koç Group in 1958 at Oto-koç. He became Chairman of the Management Committee in 1980 and was named Chairman of the Board of Directors of Koç Holding in 1984, a post he held until 2003 when he became the Honorary Chairman. Having served as the Chairman of the International Chamber of Commerce between 1995 and 1996, Rahmi M. Koç then worked at various positions such as Vice Chairman of the Board of Trustees of the Vehbi Koç Foundation, Honorary Chairman of the Board of Trustees of the Koç University, Founder and Chairman of the Board of Rahmi M. Koç Museum and Cultural Foundation, Chairman of the Board of Directors of the Vehbi Koç Foundation American Hospital, Honorary Chairman and Founding Member of TURMEPA, Turkish Marine Environment Protection Association, Honorary President of the Advisory Board of the Turkish Industrialists' and Businessmen's Association (TÜSİAD), Member of the Advisory Board of the Turkish Employers Association, Co-Chairman of the Business Advisory Council for South East Europe (BAC SEE), The Metropolitan Museum of Art, New York City, Honorary Trustee, and Founding Chairman of the Global Relations Forum.

Under the CMB's Corporate Governance Principles, Mr. Rahmi M. Koç, who is not assigned to executive function, is not an independent member.



Ali Y. Koç
Member

He graduated from Rice University in Business Administration and completed his MBA degree at Harvard Business School. He attended the American Express Bank Management Trainee program between 1990 and 1991 and worked as an analyst at Morgan Stanley Investment Bank between 1992 and 1994. He held various senior positions at Koç Holding such as the New Business Development Coordinator and President of the Information Technology Group between 1997 and 2006. He was the President of the Corporate Communications and Information Technology Group between 2006 and 2010. He has been a member of Koç Holding Board of Directors since 30 January 2008 and was named Vice Chairman on February 22, 2016. Koç is also the Chairman at various Koç Group companies. Ali Y. Koç also contributes to the country's social and economic development at URAK (International Competition Research Association) as President, Endeavor Association and DEİK (Foreign Economic Relations Board) as Board Member. He is also the Vice Chairman of TÜSİAD – Turkish Industry and Business Association and Member of the Global Advisory Council of Bank of America, Harvard University and CFR.

Under the CMB's Corporate Governance Principles, Ali Y. Koç, who is not assigned to executive function, is not an independent member.



Ömer M. Koç
Vice Chairman

He received his B.A. degree from Columbia University in 1985. He worked at Kofisa Trading for one year. He completed his MBA at Columbia University in 1989. After working at Ramerica International Inc., he joined Koç Group in 1990. He held various senior positions at Koç Holding including Finance Coordinator, Vice President and President of Energy Group. He became member of Board of Directors in 2004 and Vice Chairman in May 2008. On February 22, 2016, he was appointed as the Chairman of Koç Holding. He is also Chairman of Turkish Educational Foundation Board of Trustees, Chairman of Koç University Board of Trustees, President of Geyre Foundation and Chairman of Yapı Kredi Kültür Sanat Yayıncılık Board of Directors and Tüpraş Board of Directors. On April 6, 2017, he was appointed as the Chairman of Tofaş.

Under the CMB's Corporate Governance Principles, Mr. Ömer M. Koç, who is not assigned to executive function, is not an independent member.



Levent Çakıroğlu
Member

Levent Çakıroğlu graduated from Ankara University, Faculty of Political Sciences, Department of Business Administration. He earned a Master's degree at the University of Illinois. Mr. Çakıroğlu began his professional career as an Auditor at the Ministry of Finance in 1988. From 1997 to 1998, he taught as a part-time instructor at Bilkent University, and served as Vice President of the Financial Crimes Investigation Board at the Ministry of Finance. He joined Koç Holding in 1998 as Financial Coordinator. Subsequently, he served as the General Manager of Koçtaş (2002-2007), General Manager of Migros (2007-2008), General Manager of Arçelik (2008-2015), and President of the Consumer Durables Group at Koç Holding (2010-2015). In February 2015, Mr. Çakıroğlu was appointed Deputy Chief Executive Officer of Koç Holding, and he has been the Chief Executive Officer of Koç Holding since April 2015. He has been a member of Koç Holding Board of Directors since 2016.

Under the CMB's Corporate Governance Principles, Levent Çakıroğlu, who is not assigned to executive function, is not an independent member.



Semahat S. Arsel
Member

She began her career in 1964 as a member of Koç Holding Board of Directors, a position she continues to hold. In addition, she is the Chairman of the Board of Directors of Vehbi Koç Foundation, Chairman of the Divan Group Board of Directors, Chairman of Semahat Arsel Nursing Education and Research Center and Second Chairman of Florence Nightingale Foundation. She is also the founder of Koç University School of Nursing.

Under the CMB's Corporate Governance Principles, Semahat S. Arsel, who is not assigned to executive function, is not an independent member.



Robert Sonman
Member

Robert Sonman earned his graduate and M.A. degrees from McGill University (Canada) in architecture. He is currently the Chairman of Board of Directors in Burla Group Companies which are shareholders in Arçelik A.Ş. He has been a Member of Board of Directors of Arçelik A.Ş. since April 1994. He speaks English and French. Under the CMB's Corporate Governance Principles, Mr. Robert Sonman, who is not assigned to executive function, is not an independent member.



Dr. Fatih K. Ebiçlioğlu
Member

After graduating from Ankara University, Faculty of Political Science, Department of International Relations, Fatih Ebiçlioğlu received a Master's degree in Finance from the Virginia Commonwealth University, and earned a PhD degree in Finance-Accounting from Ankara University Faculty of Political Science. Between 1989 and 2002, Mr. Ebiçlioğlu worked as Assistant Tax Auditor at the Ministry of Finance, and later as Tax Auditor and Senior Tax Auditor. In addition, he served as a part-time instructor at Hacettepe, Bilkent and Atılım Universities from 1998 to 2002. He joined Koç Holding in 2002 as Financial Coordinator. Subsequently, he served as Audit Group Coordinator of Koç Holding (2004-2005), and Deputy General Manager of Arçelik (2005-2015). Mr. Ebiçlioğlu has been the President of the Consumer Durables Group at Koç Holding since February 2015.

Under the CMB's Corporate Governance Principles, Dr. Fatih K. Ebiçlioğlu, who is not assigned to executive function, is not an independent member.



Hakan H. Bulgurlu
Member

Following a bachelor's degree at Economy and Mechanical Engineering Departments of Texas University, Hakan Bulgurlu completed the joint MBA program at North-western University, Kellogg School of Management, and Hong Kong University of Science and Technology. He started his professional life in Ram Foreign Trade Inc. in 1995. He worked as the Sales Manager in Ram Pacific until 1996. He worked as the Far East Representative of Arçelik, Beko Elektronik, Atılım A.Ş. and Beko Ticaret from 1996 to 2000. In 2000, he was assigned as Ram Pacific General Manager. He worked as Arçelik-LG Air-Conditioner General Manager between 2007-2010. He served as the Deputy General Manager Responsible for Sales in Arçelik A.Ş. Europe, USA, Asia-Pacific in 2010. Hakan Bulgurlu was assigned as Arçelik A.S. General Manager as of February 17, 2015.

Bulgurlu is a Board Member of Foreign Trade Association of Turkey (TURKTRADE) and Chairman of Turkey – Thailand Business Council under Economic Relations Board (DEIK) and Member of the Executive Board of European Committee of Domestic Equipment Manufacturers (APPLIA/CECED).

Hakan Hamdi Bulgurlu has executive authorities and is not an independent member as per CMB Corporate Governance Principles.



Kutsan Çelebican
Member

He completed his university education at Ankara University, Faculty of Political Sciences. He commenced his working life at Ministry of Finance as an Account Expert in 1969, and served as Vice General Director of Treasury in the Ministry of Finance between 1979 and 1982 and then assigned to World Bank (IBRD) as Assistant Executive Director. He joined Koç Group in 1987 and retired from Koç Group as of December 2001 where he had served as Finance Coordinator, Vice Chairman and Chairman of Finance Group. He currently runs his finance consultancy business. As of March 29, 2012, he serves as independent member in the Board of Directors of Arçelik A.Ş.



Tunç Uluğ
Member

Tunç Uluğ was graduated from Robert College. He received his Master degree in Mechanical Engineering from University of Columbia in 1964. He worked at Bechtel Co. in USA for 3 years and started working at Koç Group in 1967. He became General Manager in the various Koç Group Companies and served as Vice President and President between 1981- 1997 and retired from in 1997.

As of March 29, 2012, he serves as independent member in the Board of Directors of Arçelik A.Ş.



Mehmet Barmanbek
Member

He graduated from Ankara University Faculty of Political Sciences in 1963. He was Head Account Expert in Ministry of Finance between 1963-1977. He became Ford Otomotiv Sanayi A.Ş. Financial Affairs Manager in 1977 and was Asistant General Manager between 1986-2002 and retired in 2002 from that position.

As of March 29, 2012, he serves as independent member in the Board of Directors of Arçelik A.Ş.



K. Kaynak Küçükpınar
Member

He graduated from Napoli Technical University, Italia, Faculty of Shipbuilding Mechanical Engineering in 1968. He started his career in 1970 in Tofaş Turkish Automobile Factory. He was Purchasing Director of Tofaş Factory in 1975 and Asistant General Manager (Asistant Manager of Factory) of Tofaş A.Ş. between 1986-1993. He was Mako Elektrik Sanayii A.Ş. General Manager between 1994 - 2000. He retired in 2001 and he was Member of Mako A.Ş. Board of Directors until the end of 2002. As of March 28, 2013, he serves as independent member in the Board of Directors of Arçelik A.Ş.

MANAGEMENT 2017



Hakan H. Bulgurlu
General Manager



C. Can Dinçer
Assistant General Manager
Turkey Trade



C. Ş. Oğuzhan Öztürk
Assistant General Manager
Production and Technology

Following a bachelor's degree at Economy and Mechanical Engineering Departments of Texas University, Hakan Bulgurlu completed the joint MBA program at North-western University, Kellogg School of Management, and Hong Kong University of Science and Technology. He started his professional life in Ram Foreign Trade Inc. in 1995. He worked as the Sales Manager in Ram Pacific until 1996. He worked as the Far East Representative of Arçelik, Beko Elektronik, Atılım A.Ş. and Beko Ticaret from 1996 to 2000. In 2000, he was assigned as Ram Pacific General Manager.

He worked as Arçelik-LG Air-Conditioner General Manager between 2007-2010. He served as the Deputy General Manager Responsible for Sales in Arçelik A.Ş. Europe, USA, Asia-Pacific in 2010.

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Bulgurlu is a Board Member of Foreign Trade Association of Turkey (TURKTRADE) and Chairman of Turkey – Thailand Business Council under Economic Relations Board (DEIK) and Member of the Executive Board of European Committee of Domestic Equipment Manufacturers (APPLIA/CECED).

Can Dinçer got his bachelor's degree in Mechanical Engineering Department in Istanbul Technical University in 1989 and master's degree in Department of Business in Stevens Technology Institute, USA in 1993. Having started his professional life as a Trainee in Arçelik A.Ş. Finance Department in 1993, Mr. Dinçer served as the Regional Sales Manager in Export Department in 1995. He worked as International Sales Manager - CIS and Other Countries between 2000-2005, as International Sales Director - European Foreign Markets between 2005-2009 and as Sales Director - Europe, USA, Asia-Pacific between 2009-2012 and as Sales Director - Subsidiaries, USA, Asia-Pacific between 2012-2015. Can Dinçer has been serving as the Assistant General Manager - Turkey Trade since February 2015. In addition to this role, he was assigned as Arçelik Pazarlama A.Ş. General Manager as of December 30, 2016.

Assistant General Manager Production and Technology Cemal Şeref Oğuzhan Öztürk graduated from Aeronautical Engineering at Istanbul Technical University, and earned his Master's degree from the Faculty of Mechanical Engineering at the same university. He began his business career as a Research Assistant at the Material Sciences and Production Technology Application and Research Center at Istanbul Technical University in 1982. Öztürk joined Arçelik A.Ş. as a Quality Control Engineer at the Eskiflehir Compressor Plant in 1987. After serving in various managerial positions across quality, manufacturing and product development processes at Arçelik A.Ş. Compressor and Refrigerator Plants, he was appointed as Arçelik A.Ş. Refrigerator Product Director, S.C. Arctic S.A. General Manager, Arçelik A.Ş. Washing Machine Product Director, Grundig Elektronik A.Ş. General Manager and Arçelik A.Ş. Supply Chain Director. Öztürk served as Assistant General Manager responsible for Purchasing and Supply Chain at Arçelik A.Ş. between 2010 and 2015. Oğuzhan Öztürk is the Assistant General Manager "Production and Technology" since October 2015.

Abdi Ayhan Önder	Product Director - Cooking Appliances
Abdurahman Şahin	Product Director – Dishwasher
Ahmet Hasanbeşeoğlu	Digital Transformation Director
Ahmet İhsan Ceylan	Supply Chain Director*
Ali Tayyar	Accounting Director
Alp Karahasanoglu	Product Director - Dryers and Electric Motors
Arel Atakol	Country Manager - Serbia, General Manager - Beko Balkans
Atilla Uz	Product Director - Washing Machine
Brigitte Petit	Country Manager - France, General Manager - Beko France S.A.S.
Buket Çelebiöven	Human Resources Director
Cann Song	Country Manager - China, General Manager - Beko Electrical Appliances Co. Ltd.
Cem Kural	Product Sourcing Director
Cemil İnan	Product Management Director
Chan Lock	Country Manager - Malaysia, General Manager Beko Appliance Malaysia
E. C Murat Büyükerk	Regional Director - Africa, Middle East, Near East
Erhan Akdoğan	Retail Development Director - Arçelik Pazarlama A.Ş.
Erkan Duysal	Innovation Director
Evren Albaş	Regional Director Sub- Sahara General Manager Defy Appliances Pty Ltd.
Fatih Özkadı	Sustainability and Corporate Affairs Director
Francesco Nicola Misurelli	Country Manager - Italy, General Manager - Beko Italy S.R.L.
Florian Marius Stoica	Financial Planning and Corporate Performance Director
Fikri Özdemir	Operations Director Voltbek
Hakan Kozan	Purchasing Director
Haldun Dineç	Product Director – Refrigerator
Hande Sarıdal	Finance Director
Hasan Ali Yardımcı	Country Manager - America, General Manager - Beko -US Inc.
Hilmi Cem Akant	Country Manager - Spain, General Manager - Beko Electronics Espana S.L
Ho Xuan Loc	Country Manager – Vietnam, General Manager – VietBeko



M. Ragıp Balcıoğlu
Assistant General Manager,
International Trade



Polat Şen
Assistant General Manager
Finance and Accounting



Zeynep Yalım Uzun
Assistant General Manager
Marketing

After receiving his bachelor's degree from Industrial Engineering Department of Istanbul Technical University in 1989, Ragıp Balcıoğlu completed Executive MBA Program in Koç University in 1996. Ragıp Balcıoğlu started his professional life as Marketing Manager in Data Hidrolik Makine Sanayi A.Ş. in 1990.

Working as an Imported Materials Planning and Purchasing Specialist between 1992-1996 in Arçelik A.Ş., Mr. Balcıoğlu was assigned as Trade Manager in Beko UK in 1996. Balcıoğlu was assigned as Product Marketing Manager in 2003 and then respectively assigned as Product Marketing Unit Director in 2004 and as Product Management and Procurement Director in 2006. Balcıoğlu worked as Sales Director between 2008-2010, as Country Manager - UK and Ireland, Beko PLC General Manager between 2011-2015 and has been working as Assistant General Manager - International Trade since February, 2015.

Polat Şen received his bachelor's degree in English Department of Economics in Marmara University in 1998 and master's degree in International Finance Department in Bradford University in 1999. Starting his professional life as Junior Auditor in Koç Holding A.Ş. Control Group Department in 2000, Mr. Şen worked as Senior Auditor in Koç Holding A.Ş. between 2002-2004. Mr. Şen was assigned as Arçelik A.Ş. Internal Audit Manager in 2004, as Financial Affairs Group Director in Grundig Electronics / Grundig Multimedia B.V. in 2008, and he worked as Grundig Multimedia B.V. Financial Affairs Director between 2009-2010. He served as the Purchasing Director between 2010-2015 and has been working as Assistant General Manager - Finance and Accounting since February 2015.

Zeynep Yalım Uzun studied economics and psychology at Agnes Scott College in the USA. She started her career in 1990 as a Training Expert at Şark Sigorta. In 1992, she started to work for Unilever as the Komili Brand Manager. In 1998, she was assigned to Unilever Poland and served as the Central & Eastern Europe marketing director of Rama brand in 22 countries. In 2001, she returned to Turkey and worked as Knorr & Calve Marketing Manager, Home Care Marketing Manager and Unilever Africa, Middle East and Turkey Home Care Director. In 2007, she was assigned as Unilever Turkey Home & Personal Care Group Assistant President and Unilever Turkey Board Member. From 2012 to 2017, she served as the Global Assistant President of Omo, one of the most important brands of Unilever, based in London. Zeynep Yalım Uzun was assigned as the Marketing Assistant General Manager of Arçelik A.Ş. as of October 2017. She is a Founding Member of Turkishwin, Consultancy Board Member at Bin Yaprak and a 'Women as Board Members' mentee. Uzun is also a Consultancy Board Member of TEDx Reset and a member of the board of trustees at Koruncuk Child Protection Foundation.

Hüseyin Öner	Information Technologies Director
Hüseyin Şerif Beyaztaş	Consumer Care Director – Arçelik Pazarlama A.Ş.
İsmail Kürşat Coşkun	Country Manager – Austria, General Manager – Elektra Bregenz A.G.
Maciej Mienik	Region Director – Eastern Europe, General Manager – Beko SA
Mehmet Tüfekçi	Marketing Director – Arçelik Pazarlama A.Ş.
John Brown	Country Manager – Australia, General Manager – Beko A and NZ Pty Ltd.
Marian Serban	Production and Technology Director – Arctic S.A.
Mustafa Esenlik	Production Technologies Director
Nihat Bayız	R&D Director
Onur Aydın	Transformation & Customer Experience Director
Onur Dostel	Country Manager – Egypt, General Manager – Beko LLC Egypt
Orhan Sayman	Country Manager Russia and Ukraine General Manager Beko LLC
Özkan Çimen	Enterprise Risk Director
Per Kristian Ervik	Country Manager – Nordic, General Manager – Grundig Nordic No AS
R.C Oğuzkan Şatıroğlu	Beko Sales Director – Arçelik Pazarlama A.Ş.
Rajan Gungiah	Brand and Consumer Trends Director
Salih Arslantaş	Country Manager – Pakistan, General Manager – Dawlance
Serdal Korkut Avcı	Industrial Design Director
Sibel Kesler	Finance and Accounting Director – Arçelik Pazarlama A.Ş.
Sühel Semerci	Country Manager – Germany, General Manager – Grundig Multimedia, Beko Deutschland GmbH
Teresa Arbuckle	Country Manager – UK, General Manager – Beko PLC
Zafer Üstüner	Regional Director – Asia Pacific
Zeynep Özbil	Corporate Communications Director
Oğuz Sülek	Finance and Accounting Director Voltbek
Roman Kantor	Country Manager Czech Republic General Manager Beko SA CZECH-Branch
Dusan Podmajersky	Country Manager Slovakia General Manager Beko Slovakia

* Retired on 31.12.2017.

AGENDA

AGENDA FOR ORDINARY GENERAL ASSEMBLY MEETING OF ARÇELİK A.Ş. DATED 19/03/2018

- 1- Opening and election of the Chairman of the Meeting,
- 2- Reading, discussing and approving the 2017 Annual Report prepared by the Company Board of Directors,
- 3- Reading the Summary of Independent Audit Report for 2017 accounting period,
- 4- Reading, discussing and approving the Financial Statements related to the 2017 accounting period,
- 5- Acquittal of each member of the Board of Directors in relation to the activities of Company in 2017,
- 6- Acceptance, acceptance after amendment or refusal of the offer of the Board of Directors in accordance with the Company's profit distribution policy regarding the distribution of the profits of 2017 and the date of the distribution of profits,
- 7- Determining the number and duty term of the Members of the Board of Directors, making elections in accordance with the determined number of members, selecting the Independent Members of the Board of Directors,
- 8- Informing and approval of the Shareholders about the Remuneration Policy for the Members of the Board of Directors and Top Managers and the payments made within the scope of the policy in accordance with the Corporate Governance Principles,
- 9- Determining annual gross salaries of the members of the Board of Directors,
- 10- Approval of the Independent Auditing Institution selected by the Board of Directors in accordance with the Turkish Commercial Code and the Capital Markets Board regulations,
- 11- Informing the shareholders about the donations made by the Company in 2017 and determining an upper limit for donations to be made in 2018,
- 12- Informing the shareholders about the collaterals, pledges, mortgages and surety granted in favor of third parties and the income and benefits obtained in 2017 by the Company and subsidiaries in accordance with Capital Markets Board regulations,
- 13- Authorising the shareholders holding management capacity, the Members of the Board of Directors, top managers and their spouses and relatives by blood and marriage up to the second degree within the framework of the articles 395th and 396th of Turkish Commercial Code and informing shareholders about transactions performed within the scope during 2017 as per the Corporate Governance Communiqué of Capital Markets Board,
- 14- Wishes and opinions.

Meeting Place and Time: Divan İstanbul Oteli
Asker Ocağı Cad. No: 1, 34367 Elmadağ - Şişli | İstanbul
19 March 2018, time 10:00

PROFIT DISTRIBUTION PROPOSAL

Esteemed Shareholders,

According to our Financial Statements for the financial year between 01.01.2017 and 31.12.2017 which were issued by our Company in compliance with International Financial reporting Standards in line with the Communiqué no 14.1 (Serial II) published by the Capital Markets Board and which was audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., our Company made and raised a "Consolidated" Net Financial Year Profit amounting to 845,302,565.23 TL, and out of this profit, 842,948,256.97 TL is the net financial year profit made and generated by our Company. Our proposed dividend distribution which was based on our Profit Distribution Policy approved at the General Assembly held on 27.03.2014, and our market forecasts and our long-term strategy, and investment and financing policies and our profitability and cash position, and it is foreseen that dividend payments shall start on 26 March 2018 according to the resolution to be adopted in the general assembly.

In line with the Capital Markets Law and the Capital Markets regulations, it was calculated that the sum of net term profit of the parent company was 842,948,256.97 TL; that the sum of 855,155,269.85 TL which is the aggregate sum when a donation of 12,207,012.88 TL made to tax-exempt foundations and associations during the year was added constitutes the first dividend basis; that according to the records prepared according to the Tax Procedure Law (VUK), the amount of funds available for distribution is 701,747,149.05 TL in aggregate provided that the sum of 375,428,312.14 TL comes from after-tax net financial year profit.

It was decided that the general statutory reserve fund at a rate of 5% that must be set aside as per the Article No 519 of the Turkish Commercial Code should not be set aside for 2017 since the current general statutory reserve fund in TPL record reached the 20% limit of the capital as of 31.12.2017;

From the consolidated profit calculated in accordance with CMB Regulations;

TL 427,577,634.93 first dividend payable to shareholders
TL 7,422,365.07 second dividend payable to shareholders

and total of

TL 435,000,000.00		Gross dividend to be distributed to the shareholders;
TL 40,121,358.98	10%	2 nd Group Reserves

based on our legal records prepared according to the Tax Procedure Law;

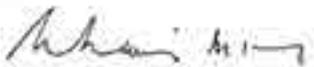
The distributable cash dividend TL 435,000,000.00 shall be funded;
TL 344,369,957.42 from current year profits,
TL 90,630,042.58 from extraordinary reserves,

Out of 2nd group legal reserve of 40,121,358.98 TL shall be funded;
TL 31,058,354.72 from current year profits,
TL 9,063,004.26 from extraordinary reserves,

After the deduction of dividend to shareholders and allocated second legal reserves from the current year profit, the remaining TL 367,826,898.00 will be allocated as extraordinary reserves in accordance with the Capital Markets regulations,

- To our shareholders which are full taxpayer institutions obtaining dividend through workplace or permanent representatives in Turkey; dividend to be paid at the rate of 64.375% and TL 0.64375 gross=net cash for shares at the nominal value of TL 1.00;
- That a gross sum of 0.64375 TL at a ratio of 64.375% per nominal share with a value of 1.00 TL and a net amount of 0.54719 TL in cash at a ratio of 54.719% should be paid to other shareholders of ours, and the profit payments should commence on 26 March 2018, and that the activity results for 2017 of the above-mentioned is submitted to the approval of General Assembly that will be held on 19 March 2018, Monday.

With our kind regards,



Rahmi M. Koç
Chairman of the Board

INDEPENDENCY STATEMENTS OF CANDIDATES FOR INDEPENDENT MEMBERS OF BOARD OF DIRECTORS

15 January 2018

STATEMENT OF INDEPENDENCE

I hereby represent that, I am a candidate for carrying our duty as "independent member" in Board of Directors of Arçelik A.Ş. (Company) within the scope of criteria specified in legislation, articles of association and Corporate Governance Communique of Capital Markets Board and in this context;

- a)** There is no employment relation at executive level that would assume material tasks, duties and responsibilities in the last five years between the Company, or such companies in which the Company controls or has a material influence over the management, or such shareholders which control or have a material influence over the Company's management and any legal entity holding management control over these shareholders, on the one hand, and myself, my spouse and next of kin by blood and affinity kinship up to second degree, and there is no individual or joint holding of more than 5% in the capital or voting stocks or preferential stocks or no material business or commercial relation has been established,
- b)** I have not worked at an executive position with significant and material tasks and responsibilities or held the seat as a board member or held a shareholding (equal to or above 5%) in such companies from which the company procures goods or services from or sells goods or services to in significant volumes in line with the agreements between them, including, in particular, the supplier's or buyer's audit (including tax audit, statutory audit, internal audit), rating and consultancy services in the last five years,
- c)** I have necessary professional education and training, knowledge and experience required for properly fulfilling the duties that I will undertake due to the fact that I become an independent board member,
- ç)** I shall not work on a full time basis at public agencies and institutions after my appointment as the member except for the lecture position at universities in line with the applicable legislation,
- d)** I am deemed to be resident in Turkey according to Income Tax Law (I.T.L.) dated 31/12/1960 and numbered 193,
- e)** I have professional prestige and reputation and experience as well as strong ethical standards to make me competent enough to favourably contribute to the corporate operations, to maintain my neutrality in conflicts of interest between the company and the shareholders and to freely decide by taking into consideration the rights of interest holders,
- f)** I will be able to spare enough time to follow up the process of company operations and fulfil all requirements of the duties I undertake, in full,
- g)** I have not carried out a duty as board member in Company's Board of Directors for more than six years, within last ten years,
- ğ)** I am not holding an independent board member position in more than five publicly traded company in total or in more than three companies in which the company or the shareholders controlling the company hold the controlling powers over the management,
- h)** I am not registered and announced on behalf of and in the name of the legal entity elected as board member.

NAME SURNAME: Kadri Kaynak KÜÇÜKPINAR

SIGNATURE:



15 January 2018

STATEMENT OF INDEPENDENCE

I hereby represent that, I am a candidate for carrying our duty as "independent member" in Board of Directors of Arçelik A.Ş. (Company) within the scope of criteria specified in legislation, articles of association and Corporate Governance Communique of Capital Markets Board and in this context;

- a)** There is no employment relation at executive level that would assume material tasks, duties and responsibilities in the last five years between the Company, or such companies in which the Company controls or has a material influence over the management, or such shareholders which control or have a material influence over the Company's management and any legal entity holding management control over these shareholders, on the one hand, and myself, my spouse and next of kin by blood and affinity kinship up to second degree, and there is no individual or joint holding of more than 5% in the capital or voting stocks or preferential stocks or no material business or commercial relation has been established,
- b)** I have not worked at an executive position with significant and material tasks and responsibilities or held the seat as a board member or held a shareholding (equal to or above 5%) in such companies from which the company procures goods or services from or sells goods or services to in significant volumes in line with the agreements between them, including, in particular, the supplier's or buyer's audit (including tax audit, statutory audit, internal audit), rating and consultancy services in the last five years,
- c)** I have necessary professional education and training, knowledge and experience required for properly fulfilling the duties that I will undertake due to the fact that I become an independent board member,
- ç)** I shall not work on a full time basis at public agencies and institutions after my appointment as the member except for the lecture position at universities in line with the applicable legislation,
- d)** I am deemed to be resident in Turkey according to Income Tax Law (I.T.L.) dated 31/12/1960 and numbered 193,
- e)** I have professional prestige and reputation and experience as well as strong ethical standards to make me competent enough to favourably contribute to the corporate operations, to maintain my neutrality in conflicts of interest between the company and the shareholders and to freely decide by taking into consideration the rights of interest holders,
- f)** I will be able to spare enough time to follow up the process of company operations and fulfil all requirements of the duties I undertake, in full,
- g)** I have not carried out a duty as board member in Company's Board of Directors for more than six years, within last ten years,
- ğ)** I am not holding an independent board member position in more than five publicly traded company in total or in more than three companies in which the company or the shareholders controlling the company hold the controlling powers over the management,
- h)** I am not registered and announced on behalf of and in the name of the legal entity elected as board member.

NAME SURNAME : Müzeyyen Münire Gülay BARBAROSOĞLU

SIGNATURE :



15 January 2018

STATEMENT OF INDEPENDENCE

I hereby represent that, I am a candidate for carrying our duty as "independent member" in Board of Directors of Arçelik A.Ş. (Company) within the scope of criteria specified in legislation, articles of association and Corporate Governance Communique of Capital Markets Board and in this context;

- a)** There is no employment relation at executive level that would assume material tasks, duties and responsibilities in the last five years between the Company, or such companies in which the Company controls or has a material influence over the management, or such shareholders which control or have a material influence over the Company's management and any legal entity holding management control over these shareholders, on the one hand, and myself, my spouse and next of kin by blood and affinity kinship up to second degree, and there is no individual or joint holding of more than 5% in the capital or voting stocks or preferential stocks or no material business or commercial relation has been established,
- b)** I have not worked at an executive position with significant and material tasks and responsibilities or held the seat as a board member or held a shareholding (equal to or above 5%) in such companies from which the company procures goods or services from or sells goods or services to in significant volumes in line with the agreements between them, including, in particular, the supplier's or buyer's audit (including tax audit, statutory audit, internal audit), rating and consultancy services in the last five years,
- c)** I have necessary professional education and training, knowledge and experience required for properly fulfilling the duties that I will undertake due to the fact that I become an independent board member,
- ç)** I shall not work on a full time basis at public agencies and institutions after my appointment as the member except for the lecture position at universities in line with the applicable legislation,
- d)** I am deemed to be resident in Turkey according to Income Tax Law (I.T.L.) dated 31/12/1960 and numbered 193,
- e)** I have professional prestige and reputation and experience as well as strong ethical standards to make me competent enough to favourably contribute to the corporate operations, to maintain my neutrality in conflicts of interest between the company and the shareholders and to freely decide by taking into consideration the rights of interest holders,
- f)** I will be able to spare enough time to follow up the process of company operations and fulfil all requirements of the duties I undertake, in full,
- g)** I have not carried out a duty as board member in Company's Board of Directors for more than six years, within last ten years,
- ğ)** I am not holding an independent board member position in more than five publicly traded company in total or in more than three companies in which the company or the shareholders controlling the company hold the controlling powers over the management,
- h)** I am not registered and announced on behalf of and in the name of the legal entity elected as board member.

NAME SURNAME : Mehmet Cem KOZLU**SIGNATURE :**


15 January 2018

STATEMENT OF INDEPENDENCE

I hereby represent that, I am a candidate for carrying our duty as "independent member" in Board of Directors of Arçelik A.Ş. (Company) within the scope of criteria specified in legislation, articles of association and Corporate Governance Communique of Capital Markets Board and in this context;

- a)** There is no employment relation at executive level that would assume material tasks, duties and responsibilities in the last five years between the Company, or such companies in which the Company controls or has a material influence over the management, or such shareholders which control or have a material influence over the Company's management and any legal entity holding management control over these shareholders, on the one hand, and myself, my spouse and next of kin by blood and affinity kinship up to second degree, and there is no individual or joint holding of more than 5% in the capital or voting stocks or preferential stocks or no material business or commercial relation has been established,
- b)** I have not worked at an executive position with significant and material tasks and responsibilities or held the seat as a board member or held a shareholding (equal to or above 5%) in such companies from which the company procures goods or services from or sells goods or services to in significant volumes in line with the agreements between them, including, in particular, the supplier's or buyer's audit (including tax audit, statutory audit, internal audit), rating and consultancy services in the last five years,
- c)** I have necessary professional education and training, knowledge and experience required for properly fulfilling the duties that I will undertake due to the fact that I become an independent board member,
- ç)** I shall not work on a full-time basis at public agencies and institutions after my appointment as the member except for the lecture position at universities in line with the applicable legislation,
- d)** I am deemed to be resident in Turkey according to Income Tax Law (I.T.L.) dated 31/12/1960 and numbered 193,
- e)** I have professional prestige and reputation and experience as well as strong ethical standards to make me competent enough to favourably contribute to the corporate operations, to maintain my neutrality in conflicts of interest between the company and the shareholders and to freely decide by taking into consideration the rights of interest holders,
- f)** I will be able to spare enough time to follow up the process of company operations and fulfil all requirements of the duties I undertake, in full,
- g)** I have not carried out a duty as board member in Company's Board of Directors for more than six years, within last ten years,
- ğ)** I am not an independent member of the board of director at the company or other companies managed by shareholders who have the control of management of the company; although I am currently an independent member of the board of directors at five stock exchange companies, I will end some of these positions at the ordinary board meeting to be held in 2018; if I get appointed as an independent member of the board of directors at your Company, I will not serve as an independent member of the board of directors at more than three of the companies belonging to the Company or the companies managed by shareholders who have the control of management of the company, or in total, more than five companies traded at Istanbul Stock Exchange,
- h)** I have not been registered and published in the name of the legal entity which is

NAME SURNAME : Kamil Ömer BOZER**SIGNATURE :**


AFFILIATED COMPANIES REPORT

PREPARED WITHIN THE SCOPE OF 199TH ARTICLE OF TURKISH COMMERCIAL CODE

As per the 199th Article of 6102 numbered Turkish Commercial Code entered into force on July 1, 2012, the Board of Directors of Arçelik A.Ş. is obliged to prepare a report on relations in previous activity year with controlling company and its dependent companies within first three months of the current activity year and to include the conclusion of this report in the annual report. The necessary declarations of Arçelik A.Ş. on transactions performed with related parties are included in the 34-numbered financial report footnote.

In February 19, 2018 dated Report, prepared by the Board of Directors of Arçelik A.Ş. following declaration was included: "It has been concluded that in all transactions made within 2017 with controlling company and its dependent companies, based on the situations and conditions to the best of our knowledge at the time of transaction or taken precaution or avoiding to take the precaution, in every transaction a proper counter performance has been provided and there was no precaution taken or avoided to be taken that may damage the company and there was no transaction or precaution that may require balancing in this context."

STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS



Arçelik A.Ş.
 Merkez : Sütlüce Karaağaç Cad. No.2/6
 Beşiktaş 34445 İSTANBUL
 Tel. : (0 212) 314 34 34
 Faks : (0 212) 314 34 92
 Teleks : 34138 arc tr
 Vergi Dairesi: Büyük Mükellefler 073 001 8000
 Tic. Sic. No: 549 57 / 004388
 www.arcelik.com.tr

**PREPARED IN ACCORDANCE WITH ARTICLE 9 OF THE CAPITAL MARKETS BOARD'S
 COMMUNIQUE NUMBERED II-14.1. ON THE FINANCIAL REPORTING IN CAPITAL MARKETS
 INFORMATION ON THE BOARD OF DIRECTOR'S RESOLUTION REGARDING THE APPROVAL OF
 THE FINANCIAL STATEMENTS**

RESOLUTION DATE: 30/01/ 2018
 RESOLUTION NUMBER: 940

- Under the Capital Markets Board Regulations, within the framework of the information provided to us in relation to our tasks and responsibilities related to the Company, we hereby announce and declare that: the consolidated Balance Sheet, Statement of Income, Statement of Other Comprehensive Income, Statement of Cash Flow, Statement of Changes in Equity along with the related Notes prepared by the Company and audited by the independent auditor PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. for the period of 01.01.2017-31.12.2017 under the CMB Financial Reporting Communique numbered as II.14.1, in accordance with Turkish Accounting Principles / Turkish Financial Reporting Standards (TAP / TFRS) and in line with the compulsory formats determined by the CMB;
- have been reviewed by us;
- do not contain any inaccuracy in all material respects and are free of omissions that may be regarded as misleading as of the issue date;
- The financial statements prepared in line with the Communique present fairly the assets, liabilities, financial position and the results of operations of the Company as well as of the companies included in the scope of consolidation.

Regards


KUTSAN ÇELEBİCİAN
 Chairman of the Audit Committee


MEHMET BARINÇBEK
 Member of the Audit Committee


ALİ TAYYAR
 Accounting Director


İZZET ŞEN
 Assistant General Manager
 Finance and Accounting



STATEMENT OF RESPONSIBILITY FOR ANNUAL REPORT



Arçelik A.Ş.
Merkez : Sütlüce Karaağaç Cad. No.2/6
Boyutlu 34448 İSTANBUL
Tel. : (0 212) 314 34 34
Faks : (0 212) 314 34 92
Telefa : 34138 arc tr.
Vergi Dairesi: Büyük Mükellefler 073 001 8000
Tic. Sic. No: 549 57 / 004388
www.arcelik.com.tr

PREPARED IN ACCORDANCE WITH ARTICLE 9 OF THE CAPITAL MARKETS BOARD'S COMMUNIQUE NUMBERED II-14.1. ON FINANCIAL REPORTING IN CAPITAL MARKETS INFORMATION ON THE BOARD OF DIRECTOR'S RESOLUTION REGARDING THE APPROVAL OF THE ANNUAL REPORT RESOLUTION

DATE: 23/02/2018
RESOLUTION NUMBER: 948

Under the Capital Markets Board Regulations, within the framework of the information provided to us in relation to our tasks and responsibilities related to the Company, we hereby announce and declare that the attached Annual Report for the year of 2017 prepared by the Company in accordance with Turkish Commercial Code and CMB Financial Reporting Communique numbered as II.14.1, and audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., according to Capital Markets Board Regulations:

- has been reviewed by us;
- does not contain any inaccuracy in all material respects and is free of omissions that may be regarded as misleading as of the issue date;
- presents fairly the progress and the performance of the business, the financial position of the Company and the companies included in the scope of consolidation together with the material risks and uncertainties.

Regards,


Kutsal ÇELEBİCAN
Chairman of the Audit Committee
Member of the Board of Directors
Responsible from Financial Reporting



Mehmet BARMANBEK
Member of the Audit Committee
Member of the Board of Directors
Responsible from Financial Reporting


Polat ŞEN
Assistant General Manager
Finance and Accounting
CFO



INDEPENDENT AUDITORS' REPORT



**CONVENIENCE TRANSLATION INTO ENGLISH OF
INDEPENDENT AUDITOR'S REPORT
ORIGINALLY ISSUED IN TURKISH**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Arçelik A.Ş.

A. Audit of the Consolidated Financial Statements

1. Opinion

We have audited the accompanying consolidated financial statements of Arçelik A.Ş. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements and a summary of significant accounting policies and consolidated financial statement notes.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Turkish Accounting Standards ("TAS").

2. Basis for Opinion

Our audit was conducted in accordance with the Standards on Independent Auditing (the "SIA") that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the "POA"). Our responsibilities under these standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We hereby declare that we are independent of the Group in accordance with the Ethical Rules for Independent Auditors (the "Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.



3. Key Audit Matters

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

<i>Key audit matters</i>	<i>How our audit addressed the key audit matter</i>
<p>Recoverability of trade receivables</p> <p>Trade receivables from third parties (TL 6,516,438 thousand as of 31 December 2017), constitute a significant portion of the consolidated assets of the Group. Furthermore, the assessment of the recoverability of these assets involves significant level of management estimates. Such estimation includes considering the following for each customer – the amount of guarantees/collateral held, past collection performance, creditworthiness and aging of receivables. The outcome of such estimates is very sensitive to changes in market conditions. Therefore, recoverability of trade receivables is a key matter for our audit.</p> <p>Please refer to notes 2, 3, 9 and 35 to the consolidated financial statements for the Group's disclosures on trade receivables, including the related accounting policy and risk management policy.</p>	<p>We performed the following procedures in relation to the recoverability of trade receivables:</p> <ul style="list-style-type: none"> • Understanding the business process for collections from customers and testing the operational effectiveness of selected key controls, • Understanding, evaluating and testing of credit risk related key controls in the financial reporting process, • Understanding and evaluating the customer and distributor collections process run by the finance department, • Analytical procedures on aging of receivables and trade receivable turnover days, comparing them to the prior period, • Inquiries with management in relation to any disputes with customers or distributors and written inquiries with the Group's legal counsels on outstanding litigation in relation to trade receivables, • Testing receivables from third parties by obtaining confirmation letters from customers and distributors and reconciling them to the Group's accounting records, • Testing collections in the subsequent period from selected customers and distributors, • Testing, on a sample basis, guarantees/collaterals held and assessing the Group's ability to convert them to cash, • Assessing the adequacy of disclosures around recoverability of trade receivables in the consolidated financial statements. <p>We had no material findings related to the recoverability of trade receivables as a result of these procedures.</p>



3. Key Audit Matters (Continued)

<i>Key audit matters</i>	<i>How our audit addressed the key audit matter</i>
<p><i>Provision for the impairment of inventories</i></p> <p>The Group's inventories, amounting to TL 3,779,928 thousand as of 31 December 2017, carry a risk of diminution in value due to disruptive technological changes and macroeconomic developments. In addition, determining the provision for such diminution in value involves judgements and estimates. These judgments and estimates include evaluation of the slow moving inventories due to various reasons such as technological changes and decrease in customer demands, and evaluation of the provision for obsolete and damaged inventories. Therefore, the provision for the impairment of inventories is a key matter for our audit.</p> <p>Please refer to notes 2.3 and 11 to the consolidated financial statements for the Group's disclosures on this provision, including the related accounting policy.</p>	<p>Procedures performed to ensure the adequacy of the provision for the diminution of the value of inventories are as follows:</p> <ul style="list-style-type: none"> • Understanding and evaluating the reasonableness of the provisioning policy and the assessment of its compliance, • Inquiry with the Group management about the risk of diminution in value as a result of disruptive technological changes, • Analytical procedures on inventory turnover rates compared to the prior year, • Evaluation of the adequacy of the provision recognized in the current period in comparison to the write downs realized in the prior period, • Observation of obsolete and damaged inventories during inventory counts, • Testing, on a sample basis, the net selling prices used in the calculation for the net realizable value of inventories. <p>We had no material findings related to the provision for the impairment of inventories as a result of these procedures.</p>



3. Key Audit Matters (Continued)

<i>Key audit matters</i>	<i>How our audit addressed the key audit matter</i>
<p><i>Impairment tests of indefinite-life intangible assets</i></p> <p>The carrying value of brands and goodwill which are accounted for under indefinite-life intangible assets amounted to TL 1,052,282 thousand and TL 438,112 thousand, respectively, in the consolidated financial statements as of 31 December 2017. In accordance with TAS, these indefinite-life intangible assets should be tested for impairment annually.</p> <p>Brands and goodwill are material to the consolidated financial statements. In addition, significant judgements and estimates are used in the impairment tests performed by management. These are, for goodwill impairment tests; earnings before interest, tax, depreciation and amortization ("EBITDA") growth forecasts, long term growth rates and discount rates and in addition to these, royalty rates used in the relief from royalty method for the brand impairment tests. The outcome of such estimates is very sensitive to changes in market conditions. Therefore, these impairment tests are key matters for our audit.</p> <p>Please refer to notes 2, 3, 14 and 15 to the consolidated financial statements for the relevant disclosures, including the accounting policy and sensitivity analysis.</p>	<p>We performed the following procedures in relation to the impairment tests of brands and goodwill:</p> <ul style="list-style-type: none"> • Evaluating the appropriateness of the Cash Generating Units ("CGUs") determined by management, • Evaluating management forecasts and future plans based on macroeconomic information, • Comparing forecasted cash flows for each CGU with its historical financial performance, • Through involvement of our internal valuation specialists, assessing the reasonableness of key assumptions, including long term growth rates, discount rates and royalty rates and benchmarking these against rates used in the durable goods and consumer electronics industries, • Testing of the setup of the discounted cash flow models and their mathematical accuracy, • Assessing management's sensitivity analysis for key assumptions, • Testing of the disclosures in the consolidated financial statements in relation to indefinite-life intangible assets, and evaluating the adequacy of these disclosures for TAS' requirements. <p>We had no material findings related to the impairment tests of indefinite-life intangible assets as a result of these procedures.</p>



4. Other matter

The consolidated financial statements of the Group as of 31 December 2016 and for the year then ended were audited by another audit firm whose audit report dated 6 February 2017 expressed an unqualified opinion.

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

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

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

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

6. Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

Our aim is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance expressed as a result of an independent audit conducted in accordance with SIA is a high level of assurance but does not guarantee that a material misstatement will always be detected. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an independent audit conducted in accordance with SIA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:



6. Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

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



6. Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

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

B. Other Responsibilities Arising From Regulatory Requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from 1 January to 31 December 2017 period are not in compliance with the TCC and provisions of the Company's articles of association related to financial reporting.
2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.
3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor's report on the early risk identification system and committee was submitted to the Company's Board of Directors on 30 January 2018.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

Cihan Harman, SMMM
Partner

İstanbul, 30 January 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2017

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

	Notes	Audited	
		December 31, 2017	December 31, 2016
ASSETS			
Current assets:			
Cash and cash equivalents	5	2,581,964	2,441,871
Trade receivables			
-Due from related parties	34	13,609	6,504
-Trade receivables, third parties	9	6,504,009	5,288,765
Derivative instruments	8	9,133	4,804
Inventories	11	3,779,928	2,761,570
Prepaid expenses	20	215,763	119,154
Current income tax assets	21	106,532	74,629
Other current assets	23	398,838	276,575
Total current assets		13,609,776	10,973,872
Non-current assets:			
Financial investments	6	2,552	2,735
Trade receivables			
-Trade receivables, third parties	9	12,429	24,484
Derivate instruments	8	38,249	178,882
Associates	12	282,261	236,090
Property, plant and equipment	13	3,264,771	2,762,299
Intangible assets			
-Goodwill	15	438,112	393,752
-Other intangible assets	14	2,140,338	1,910,508
Deferred tax assets	32	648,007	426,746
Total non-current assets		6,826,719	5,935,496
Total assets		20,436,495	16,909,368

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2017

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

	Notes	December 31, 2017	Audited December 31, 2016
LIABILITIES			
Current liabilities:			
Financial liabilities	7	1,034,417	1,239,158
Short term portion of long term financial liabilities	7	2,227,770	1,011,416
Trade payables			
-Due to related parties	34	550,948	506,164
-Trade payables, third parties	9	3,024,620	2,579,825
Derivative instruments	8	13,888	4,385
Employee benefit obligations	22	323,515	246,298
Other payables			
-Due to related parties	34	19,712	16,622
-Other payables, third parties	10	242,655	220,873
Current income tax liabilities	32	28,053	23,363
Provisions			
-Other provisions	18	430,630	412,360
Other current liabilities	23	506,812	345,624
Total current liabilities		8,403,020	6,606,088
Non-current liabilities			
Financial liabilities	7	4,113,916	3,407,081
Other payables			
-Due to related parties	34	40,246	56,292
Provisions			
-Provision for employee benefits	19	241,758	227,571
-Other provisions	18	232,163	140,236
Deferred tax liabilities	32	439,909	412,591
Other non-current liabilities		50,406	54,932
Total non-current liabilities		5,118,398	4,298,703
Total liabilities		13,521,418	10,904,791

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2017

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

	Notes	December 31, 2017	Audited December 31, 2016
EQUITY			
Paid-in capital	24	675,728	675,728
Adjustment to share capital	24	468,811	468,811
Share premium/discount		889	889
Other accumulated comprehensive income and expenses not to be reclassified to profit or loss			
Gains/ losses on revaluation and remeasurement			
-Actuarial gain/loss arising from defined benefit plans		(112,902)	(94,522)
Other accumulated comprehensive income and expense to be reclassified to profit or loss			
-Currency translation differences		1,622,125	1,022,912
Gains/ losses on hedge			
-Gains/ losses on hedges of net investment in foreign operations		(419,715)	(323,047)
-Gains/ losses on cash flow hedges		7,263	6,152
Gains/ losses on revaluation and reclassification			
-Gains/ losses on remeasuring and/or reclassification of available-for-sale financial assets		2,009	2,183
Balancing account for merger capital	24	14,507	14,507
Restricted reserves	24	368,993	329,872
Retained earnings		3,410,341	2,574,550
Net income for the period		842,949	1,299,912
Equity holders of the parent		6,880,998	5,977,947
Non-controlling interest		34,079	26,630
Total equity		6,915,077	6,004,577
Total liabilities and equity		20,436,495	16,909,368
Commitments, contingent assets and liabilities	17		

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2017

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

	Notes	2017	Audited 2016
Net sales	4,25	20,840,613	16,096,172
Cost of sales	4,25	(14,334,414)	(10,756,612)
Gross profit		6,506,199	5,339,560
General administrative expenses	26	(936,579)	(762,791)
Marketing expenses	26	(4,027,699)	(3,227,324)
Research and development expenses	26	(170,177)	(151,668)
Other income from operating activities	28	711,838	690,067
Other expenses from operating activities	28	(371,751)	(389,773)
Operating profit		1,711,831	1,498,071
Income from investment activities	29	8,285	418,742
Expenses from investment activities	29	(7,347)	(2,413)
Income from associates (net)	12	39,090	34,857
Operating income before financial income/(expense)		1,751,859	1,949,257
Financial income	30	901,539	670,046
Financial expenses	31	(1,832,501)	(1,417,622)
Profit from continuing operations before tax		820,897	1,201,681
Tax income/(expense), continuing operations			
- Taxes on income	32	(194,034)	(100,195)
- Deferred tax income	32	218,440	202,664
Net income		845,303	1,304,150
Attributable to			
Non-controlling interest		2,354	4,238
Equity holders of the parent		842,949	1,299,912
Earnings per share (kurus)	33	1,247	1.924
Diluted earnings per share (kurus)	33	1,247	1.924

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2017

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

	2017	Audited 2016
Net income	845,303	1,304,150
Other comprehensive income		
Other comprehensive income not to be reclassified to profit or loss	(22,829)	(45,925)
Actuarial gain/ loss arising from defined benefit plans	(22,491)	(45,089)
Share of other comprehensive income of associates accounted for using equity method that will not be reclassified to profit or loss	(338)	(836)
Other comprehensive income not to be reclassified to profit or loss, tax effect	4,449	9,018
Actuarial gain/ loss arising from defined benefit plans, tax effect	4,449	9,018
Other comprehensive income to be reclassified to profit or loss	484,502	212,825
Currency translation differences	604,410	679,530
Other comprehensive income related with hedges of net investments in foreign operations	(120,836)	(79,845)
Gains/ losses on remeasuring and/or reclassification of available-for-sale financial assets	(183)	(391,598)
Share of other comprehensive income of associates accounted for using equity method that will be reclassified to profit or loss	1,111	4,738
Other comprehensive income to be reclassified to profit or loss, tax effect	24,177	35,549
Other comprehensive income related with hedges of net investments in foreign operations, tax effect	24,168	15,969
Gains/ losses on remeasuring and/or reclassification of available-for-sale financial assets, tax effect	9	19,580
Other comprehensive income (net of tax)	490,299	211,467
Total comprehensive income	1,335,602	1,515,617
Attributable to:		
Non-controlling interest	7,551	7,804
Equity holders of the parent	1,328,051	1,507,813

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2017

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			Retained earnings			Equity holders of the parent	Non-controlling interest	Total equity		
	Paid-in capital	Adjustment to share capital	Share premium/discount	Balancing account for merger capital	Actuarial gain/(loss) arising from defined benefit plans	Gains/losses on hedge	Gains/losses on revaluation and/or reclassification	Gains/losses on remeasuring and/or reclassification of available-for-sale financial assets	Currency translation differences	Restricted reserves				Accumulated profit	Net income
Balance at January 1, 2016	675,728	468,811	889	14,507	(57,615)	(257,757)	374,201	346,948	307,051	1,893,107	891,141	4,657,011	18,826	4,675,837	
Other restatements	-	-	-	-	-	-	-	-	-	75,123	-	75,123	-	75,123	
Restated balances	675,728	468,811	889	14,507	(57,615)	(257,757)	374,201	346,948	307,051	1,968,230	891,141	4,732,134	18,826	4,750,960	
Transfers	-	-	-	-	-	-	-	-	22,821	868,320	(891,141)	-	-	-	
Total comprehensive income	-	-	-	-	(36,907)	(59,138)	(372,018)	675,964	-	-	-1,299,912	1,507,813	7,804	1,515,617	
Net income	-	-	-	-	-	-	-	-	-	-	-1,299,912	1,299,912	4,238	1,304,150	
Other comprehensive income	-	-	-	-	(36,907)	(59,138)	(372,018)	675,964	-	-	-	207,901	3,566	211,467	
Dividends paid (Note 24)	-	-	-	-	-	-	-	-	-	(262,000)	-	(262,000)	-	(262,000)	
As of December 31, 2016	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	
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	-	-	-	-	(18,380)	(95,557)	(174)	599,213	-	-	842,949	1,328,051	7,551	1,335,602	
Net income	-	-	-	-	-	-	-	-	-	-	842,949	842,949	2,354	845,303	
Other comprehensive income	-	-	-	-	(18,380)	(95,557)	(174)	599,213	-	-	-	485,102	5,197	490,299	
Dividends paid (Note 24)	-	-	-	-	-	-	-	-	-	(425,000)	-	(425,000)	(102)	(425,102)	
As of December 31, 2017	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	

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2017

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

	Notes	Audited	
		2017	2016
Net income from continued operations:		845,303	1,304,150
<i>Adjustments to reconcile net cash provided from operating activities to net income after taxes</i>			
Adjustments for tax expense (income)	32	(24,406)	(102,469)
Adjustments for depreciation and amortisation expense	27	548,187	438,682
Adjustments for impairment loss	37	41,995	49,515
Adjustments for provisions	37	304,873	161,814
Adjustments for interest expense	31	574,914	440,986
Adjustments for interest income	30	(30,578)	(28,350)
Adjustments for undistributed profits of investments accounted for using equity method	12	(39,090)	(34,857)
Adjustments for fair value (gains) losses on derivative financial instruments	30, 31	168,195	(35,782)
Adjustments for unrealised foreign exchange losses (gains)	30, 31	208,648	359,602
Other adjustments to reconcile profit (loss)	30, 31	9,783	11,120
Adjustments for income arised from government grants	28	(67,314)	(198,860)
Adjustments for dividend (income) expenses	29	(93)	(59)
Adjustments for (income) expense caused by sale or changes in share of associates, joint ventures and financial investments	29	-	(413,739)
Adjustments for losses (gains) on disposal of non-current assets	29	(845)	(2,531)
Net cash flow from operating activities before changes in operating assets and liabilities		2,539,572	1,949,222
Changes in operating assets and liabilities:			
Adjustments for decrease (increase) in trade receivables		(1,226,705)	(482,683)
Adjustments for decrease (increase) in inventories		(1,035,079)	(515,333)
Decrease (increase) in prepaid expenses		(96,609)	(44,210)
Adjustments for increase (decrease) in trade payables		489,579	955,788
Increase (decrease) in employee benefit liabilities		18,819	37,692
Adjustments for increase (decrease) in other operating payables		3,949	51,572
Increase (decrease) in government grants and assistance		81,749	182,966
Other adjustments for other increase (decrease) in working capital		(117,104)	67,252
Income taxes refund (paid)		(163,939)	(134,989)
Cash flows from operating activities		494,232	2,067,277
Investing activities:			
Cash flows used in obtaining control of subsidiaries or other businesses	3	-	(745,608)
Purchase of property, plant, equipment and intangible assets		(987,217)	(830,966)
Proceeds from sales of property, plant, equipment and intangible assets		18,730	7,007
Dividends received		13,178	12,809
Cash receipts from sales of equity or debt instruments of other entities	34	-	558,582
Cash Outflows from Participations and / or Joint Ventures Share acquisitions or capital increase	12	(19,002)	-
Cash flows from investing activities		(974,311)	(998,176)
Financing activities:			
Proceeds from borrowings		2,834,707	2,603,563
Repayments of borrowings		(1,529,456)	(3,043,217)
Dividends paid		(425,102)	(262,000)
Interest paid		(511,168)	(441,734)
Interest received		29,727	29,604
Cash receipts from future contracts, forward contracts, option contracts and swap contracts (net)		(22,387)	14,253
Other inflows (outflows) of cash		(9,782)	(11,120)
Cash flows from financing activities		366,539	(1,110,651)
Net increase/(decrease) in cash and cash equivalents before currency translation differences		(113,540)	(41,550)
Effect of currency translation differences		252,781	317,049
Net increase/(decrease) in cash and cash equivalents		139,241	275,499
Cash and cash equivalents at January 1	5	2,441,652	2,166,153
Cash and cash equivalents at December 31	5	2,580,893	2,441,652

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2017

(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, exportation and importation 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 24).

The Company's head office is located at:
Karaağaç Caddesi No: 2-6
Sütlüce 34445 Beyoğlu İstanbul / Turkey

The Company is registered to the Capital Markets Board ("CMB") and its shares have been quoted on the Borsa İstanbul ("BIST") since 1986. As of December 31, 2017, the publicly listed shares are 25.15% of the total shares. (December 31, 2016: 25.15%)

The average number of personnel employed by categories in the Group in 2017 is 6,433 white - collar (2016: 4,812) and 23,621 blue - collar (2016: 21,627) totaling to 30,054 (2016: 26,439).

Subsidiaries and branches	Country of incorporation	Core business	Nature of business
<i>Continuing operations as of reporting date</i>			
Arçelik Pazarlama A.Ş. ("Pazarlama A.Ş.")	Turkey	Service/Sales/ Marketing	Consumer Durables/Electronics
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 España")	Spain	Sales	Consumer Durables/Electronics
Beko France S.A.S. ("Beko France")	France	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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2017

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

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

Subsidiaries and branches	Country of incorporation	Core business	Nature of business
<i>Continuing operations as of reporting date</i>			
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.

Subsidiaries and branches	Country of incorporation	Core business	Nature of business
<i>Ceased operations as of reporting date</i>			
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	Country of incorporation	Core business	Nature of business
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
VoltBek Home Appliances Private Limited ("VoltBek")	India	Production/Sales	Consumer Durables

(*) Voltbek is founded in 2017 to manufacture major domestic appliances and perform sales activities in Indian domestic market.

Approval of consolidated financial statements

These consolidated financial statements as of and for the year ended 31 December 2017 has been approved for issue by the Board of Directors on 30 January 2018. These consolidated financial statements will be finalised following their approval in the General Assembly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

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 of Turkey ("POA") in line with the communiqué numbered II-14.1 "Communiqué on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") announced by the Capital Markets Board of Turkey ("CMB") on June 13, 2013 which is published on Official Gazette numbered 28676. TAS/TFRS are updated in harmony with the changes and updates in International Financial and Accounting Standards ("IFRS") by the communiqués announced by the POA.

The 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.

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 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.

New and amended standards and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 2017 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, 2017. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

The new standards, amendments and interpretations which are effective as at January 1, 2017 are as follows:

Amendments to IAS 7 Statement of cash flows

The amendment on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. These amendments applied but did not have a significant impact over consolidated financial statements and disclosures of the Group.

Amendments IAS 12 Income Taxes

The amendment is effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets. The amendment did not have a significant impact over consolidated consolidated financial position or performance of the Group.

Annual Improvements 2014-2016 Cycle

IFRS 12, 'Disclosure of interests in other entities'; regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017. This amendment clarifies that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarized financial information. The amendment did not have a significant impact over consolidated consolidated financial position or performance of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

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

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 consolidated financial statements 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 15 Revenue from Contracts with Customers

In September 2016, POA issued TFRS 15 Revenue from Contracts with Customers. The new standard issued includes the clarifying amendments to TFRS 15 made by IASB in April 2016. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity’s ordinary activities (e.g., the sale of property, plant and equipment or intangibles). Effective date for TFRS 15 is January 1, 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

TFRS 9 Financial Instruments

In January 2016, POA issued the final version of TFRS 9 Financial Instruments. The final version of TFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. TFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, TFRS 9 addresses the so-called ‘own credit’ issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. TFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted by applying all requirements of the standard. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

Annual Improvements to IFRS - 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

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

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; and
- 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 Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

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.

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

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

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued by the POA, thus they do not constitute part of TFRS. The Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted.

Annual Improvements – 2010–2012 Cycle

IFRS 13 Fair Value Measurement

As clarified in the Basis for Conclusions short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment is effective immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

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

IFRS 16 Leases

In January 2016, the IASB has published a new standard, IFRS 16 ‘Leases’. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 ‘Leases’ and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 ‘Revenue from Contracts with Customers’ has also been applied. 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

The amendment 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 Interpretation Committee 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. The Group is in the process of assessing the impact of the amendment 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

Financial statements of subsidiaries operating in countries other than Turkey are adjusted to the TAS/IFRS 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 included in the “currency translation difference” under the shareholders’ equity.

Consolidation principles

- (a) The consolidated financial statements include the accounts of the parent company, Arçelik, and its Subsidiaries and Associates on the basis set out in sections (b) to (f) below. The financial statements of the companies included in the consolidation have been prepared as of the date of the consolidated financial statements and are based on the statutory records with adjustments and reclassifications for the purpose of presentation in conformity TAS/IFRS promulgated by the POA as set out in the communiqué numbered II-14.1, and Group accounting and disclosure policies.
- (b) Subsidiaries are the Companies controlled by Arçelik when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
- (c) Subsidiaries are consolidated from the date on which the control is transferred to the Group and are no longer consolidated from the date that the control ceases.

The statement of financial position and statements profit or loss of the Subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by Arçelik and its Subsidiaries is eliminated against the related shareholders’ equity. Intercompany transactions and balances between Arçelik and its Subsidiaries are eliminated on consolidation. The cost of, and the dividends arising from, shares held by Arçelik in its Subsidiaries are eliminated from shareholders’ equity and income for the year, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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

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

Consolidation principles (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 December 31, 2017 and December 31, 2016 (%) and their functional currencies:

	Functional currency	December 31, 2017		December 31, 2016	
		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
Ar Dutch	Euro ("EUR")	100.00	100.00	100.00	100.00
Ar Dutch 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 Hong Kong	US Dollar ("USD")	100.00	100.00	100.00	100.00
Beko Indonesia (1)	Indonesian Rupiah ("IDR")	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
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) Founded as a sales company in 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Consolidation principles (Continued)**

- (d) Associates are companies in which the Group has attributable interest of more than 20% and less than 50% of the ordinary share capital held for the long-term and over which a significant influence is exercised. Associates are accounted for using the equity method.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. The Group ceases to account the associate using the equity method if it loses the significant influence or the net investment in the associate becomes nil, unless it has entered to a liability or a commitment. After the date of the caesura of the significant influence, the investment is carried either at fair value when the fair values can be measured reliably or otherwise at cost when the fair values cannot be reliably measured.

The table below sets out all Associates and shows their direct and indirect ownership as of December 31, 2017 and 2016 (%):

	2017	2016
Arçelik - LG	45.00	45.00
Koç Finansman	47.00	47.00
Ram Dış Ticaret	33.50	33.50
Tanı Pazarlama	32.00	32.00
Voltbek	49.00	-

- (e) Available-for-sale investments, in which the Group has attributable interests below 20% or in which a significant influence is not exercised by the Group, that have quoted market prices in active markets and whose fair values can be reliably measured are carried at fair value. Any financial investment that is who has no fair value quoted in a stock exchange or whose fair value is not measured reliably are carried at cost value.

- (f) The non-controlling share in the net assets and results of Subsidiaries for the year are separately classified as “non-controlling interest” in the consolidated statements of financial position and consolidated statements of profit or loss.

Going concern

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

In order to conform to changes in presentation in the current period consolidated financial statements, as of 31 December 2016, asset held for sale amounting to TRY 11.888, which had been classified in current assets, have been classified in fixed assets; fund amounting to TRY 88.438 which had been classified in revaluation of non current assets, have been classified in currency translation difference and retained earnings. Cash flow from operating activities amounting to TRY 2.399 has been classified in cash flow from investment activities. These reclassifications performed in order to conform to changes in presentation in the current period consolidated financial statements are not material to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (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 recognised 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.

2.3 Summary of significant accounting policies

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

Related parties

For the purpose of these consolidated financial statements, shareholders, key management personnel and Board members, in each case together with their families and companies controlled by/or affiliated with them, associated companies and other companies within the Koç Holding group, and the companies controlled by Koç Holding are considered and referred to as related parties (Note 34).

The Group recognizes sales and purchases related to its Subsidiaries made through Ram Dış Ticaret as intra-group transactions; thus, these transactions are eliminated in the consolidated financial statements.

Trade receivables

Trade receivables that are created by the Group by way of providing goods or services directly to a debtor are carried at amortized cost. Receivables with short-term maturities which have no predefined interest rate are measured at the original invoice amount unless the effect of imputed interest is significant (Note 9).

A doubtful receivable provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The receivables in process of lawsuit or enforcement or in a prior stage, the customer having material financial difficulties, the receivable turning default or the possibility of material and unforeseeable delay in the future collection are included under objective evidences. The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the collection amount is decreased from the doubtful receivable provisions and recorded as other income from operating activities (Note 28).

The Group collects some of its receivables via factoring. The Group follows related receivables in its consolidated financial statements since the collection risk of these receivables belongs to the Group until these ceded receivables are collected by the factoring company. Advance taken from factoring company against these receivables is recorded as factoring payable in "Financial Liabilities" account. Factoring expenses are accounted as accrual base in finance expenses account.

Inventories

Inventories are valued at the lower of cost or net realizable value. The cost of inventories is determined on the weighted average basis for each purchase. Cost elements included in inventories are materials, labour and factory overheads. The cost of borrowings is not included in the costs of inventories. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and estimated costs to make the sale (Note 11).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

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

Financial instruments

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative assets with fixed or determinable payments that are not quoted in an active market. 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 loans and receivables comprise “trade receivables” and “cash and cash equivalents” in the statement of financial position.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the related investments within 12 months of the balance sheet date.

(c) Financial instruments at fair value through profit or loss - derivative instruments

Derivative instruments are initially recognized at the transaction cost reflecting the fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. A financial instrument acquired to be sold or repurchased in the further periods is recognized in this group. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Group’s financial instruments at fair value through profit or loss consist of forward contracts and currency swaps.

Financial liabilities

Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective yield method; any difference between proceeds, net of transaction costs, and the redemption value is recognized in the statement of profit or loss over the period. Borrowing costs are charged to the statement of profit or loss when they are incurred (Note 7). Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

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

Recognition and de-recognition of financial instruments

All purchases and sales of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase or to sell the asset. These purchases or sales are purchases or sales generally require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the assets.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the consolidated financial statements.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Foreign currency hedge of net investments in foreign operations

Gains or losses on the hedging instrument relating to the effective portion of the foreign currency hedge of net investments in foreign operations are recognized as other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the consolidated statement of profit or loss. The gain or loss on the hedging instruments that has been recognized directly in equity is transferred statements of profit or loss on the disposal of the foreign operation (Note 35).

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less (Note 5). For the purpose of consolidated statements of cash flows, cash and cash equivalents includes cash and cash equivalents with original maturities less than three months, excluding the interest accruals.

Property, plant and equipment and related depreciation

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided on restated amounts of property, plant and equipment using the straight-line method based on the estimated useful lives of the assets, except for land due to their indefinite useful life. The depreciation periods for property and equipment, which approximate the economic useful lives of assets concerned, are as follows:

Land and land improvements	10 - 50 years
Buildings	30 - 50 years
Machinery, equipment and moulds	2 - 25 years
Motor vehicles and fixtures	4 - 10 years
Leasehold improvements	3 - 10 years

Property, plant and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of the property, plant and equipment is the higher of future net cash flows from the utilization of this property, plant and equipment or fair value less cost to sell.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

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

Property, plant and equipment and related depreciation (Continued)

Gains or losses on disposals of property, plant and equipment are included in income/expense from investment activities.

Subsequent costs, such as repairs and maintenance or part replacement of tangible assets, are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits with the item will flow to the company (Note 13). All other costs are charged to the statements of profit or loss during the financial year in which they are incurred.

Other intangible assets

Other intangible assets are comprised of acquired brands, trademarks, patents, developments costs and computer software (Note 14).

a) Brands

Separately acquired brands are shown at historical cost; brands acquired in a business combination are recognized at fair value at the acquisition date in the consolidated financial statements.

The Group has assessed the useful lives of brands as indefinite due to the fact that there is no foreseeable limit to the period over which brands are expected to generate net cash inflows for the Group. Brands that have an indefinite useful life are not subject to amortization. Brands are tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If there is an indicator initial recognition value in an asset is greater than estimated net realizable value, the value of asset should be recorded at recoverable value.

b) Development costs

Costs incurred on development projects relating to the design and testing of new or improved products are recognized as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other research and development expenditures are recognized as an expense as incurred. Development expenditures previously recognized as an expense cannot be recognized as an asset in a subsequent period. Development costs that have been capitalized are amortized from the commencement of the commercial production of the product on a straight-line basis from 2 to 10 years.

c) Computer software and rights

Computer software and rights are recognized at their acquisition cost. They are amortized on a straight-line basis over their estimated useful lives and carried at cost less accumulated amortization. Their estimated useful lives are between 4 -15 years.

d) Trademark licenses and patents

Separately acquired trademark licenses and patents are carried at their acquisition costs. Trademark licenses and patents acquired in a business combination are accounted for at their fair values at the acquisition date. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives (5 years).

e) Customer Relationships

Customer relationships that are acquired as a part of business combination are accounted for at their fair value at the acquisition date in the financial statements. Customer relationships have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over their estimated useful lives (8, 22 and 50 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

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

Business combinations and goodwill

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses.

Business combinations realized before January 1, 2010 have been accounted for by using the purchase method in the scope of IFRS 3 "Business combinations" prior to amendment. The cost of a business combination is the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquire and in addition, any costs directly attributable to the business combination. If a business combination contract includes clauses that enable adjustments in the cost of business combination depending on events after acquisition date; in case the adjustment is measurable and more probable than not, than cost of business combination at acquisition date is adjusted.

Any excess of the cost of acquisition over the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill in the consolidated financial statements.

Goodwill recognized in business combinations is tested for impairment annually (as of December 31) or more frequently if events or changes in circumstances indicate impairment, instead of amortization (Note 15). Impairment losses on goodwill are not reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Any excess of the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the business combination is accounted for as income in the related period.

IFRS 3 "Business Combinations", which is effective for the periods beginning January 1, 2010, is applied for business combinations realized in 2011.

The revised IFRS 3 introduces a number of changes in the accounting for business combinations which will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Such changes include the expensing of acquisition-related costs and recognizing subsequent changes in fair value of contingent consideration in the profit or loss (rather than by adjusting goodwill).

Financial leases

(1) *The Group as the lessee*

Finance leases

Assets acquired under finance lease agreements are capitalized at the inception of the lease at the fair value of the leased asset, net of grants and tax credits receivable, or at the present value of the lease payment, whichever is the lower. Lease payments are treated as comprising capital and interest elements, the capital element is treated as reducing the capitalized obligation under the lease and the interest element is charged as expense to the consolidated statement of profit or loss. Depreciation on the relevant asset is also charged to the consolidated statement of profit or loss over its useful life.

Operational leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

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

Financial leases (Continued)

(2) The Group as the lessor

Operational leases

Assets leased out under operating leases are classified under property, plant and equipment in the consolidated statement of financial position and rental income is recognized on a straight-line basis over the lease term.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset which requires substantial period of time to get ready for its intended use or sale shall be capitalized over the cost of the asset (Note 14). Other borrowing costs shall be recognized as an expense in the period it incurs (Note 30 and Note 31).

Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in the statement of profit or loss, except to the extent that it relates to items recognized directly in equity. In such case, the tax is also recognized in shareholders' equity.

The current income tax charge is calculated in accordance with the tax laws enacted or substantively enacted at the balance sheet date in the countries where the subsidiaries of the Group operate.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Currently enacted tax rates are used to determine deferred income tax at the balance sheet date (Note 32).

The principal temporary differences arise from the carrying values of property, plant and equipment and available-for-sale-investments and their historical costs, various provisions and unused tax allowances and exemptions.

Deferred tax liabilities are recognized for all taxable temporary differences, where deferred tax assets resulting from deductible temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilized.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax relating to items recognized directly in equity is recognized in equity.

The Company recognizes deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, to the extent that, and only to the extent that, it is probable that:

- the temporary difference will reverse in the foreseeable future; and
- taxable profit will be available against which the temporary difference can be utilized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

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

Current and deferred income tax (Continued)

The Company recognizes deferred tax liability for all taxable temporary differences associated with investments in subsidiaries except to the extent that both of the following conditions are satisfied:

- the parent can control the timing of the reversal of the temporary difference; and
- it is probable that the temporary difference will not reverse in the foreseeable future.

Government grants allowing reduced corporate tax payment are evaluated within the scope of TAS 12 Income Taxes standard and are recognised as deferred tax asset by the qualified tax advantage amount, to the extent it is highly probable that future taxable profits will be available against which the unused investment tax credits can be utilised.

Employment termination benefits

Employment termination benefits, as required by the Turkish Labour Law and the laws applicable in the countries where the subsidiaries operate, represent the estimated present value of the total reserve of the future probable obligation of the Company arising in case of the retirement of the employees, termination of employment without due cause, call for military service, be retired or death upon the completion of a minimum one year service. Provision which is allocated by using defined benefit pension's current value is calculated by using prescribed liability method. Actuarial gains and losses are recognized as other comprehensive income or loss in shareholders' equity in the period in which they arise (Note 19).

Foreign currency transactions

Transactions in foreign currencies during the period have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into TRY at the exchange rates prevailing at the balance sheet dates. Exchange gain or losses arising from the settlement and translation of foreign currency items have been included under financial income/ expenses and other operating income/ expenses in the consolidated statements of profit or loss, except for the effective portion of the foreign currency hedge of net investments in foreign operations.

Revenue recognition

Revenues are recognized on an accrual basis at the fair values incurred or to be incurred when the goods are delivered, the risks and rewards of ownership of the goods are transferred, when the amount of revenue can be reliably measured and it is probable that the future economic benefits associated with the transaction will flow to the entity. Net sales represent the fair value of goods shipped less actual and estimated sales discounts and returns. Sales taxes such as Value Added Taxes ("VAT") excluded from revenue.

Incentives for investments, research and development activities

Gains arising from incentives for investment and research and development activities together with government grants are recognized when there is a reasonable assurance for the necessary conditions to be fulfilled and incentive to be acquired by the Group. Vested government grants related with expense or capitalization realized in previous accounting periods, are recognized in statements of profit or loss when collectible and grants relating to capital assets are accounted for as deferred income in the consolidated balance sheet and are credited to consolidated income statement on a straight-line basis over the expected lives of related assets.

Dividends

Dividends receivable are recognized as income in the period when they are declared. Dividends payable are recognized as an appropriation of profit in the period in which they are declared (Note 24).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

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

Paid-in capital

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

Share premium

Share premium represents differences resulting from the sale of the Company's Subsidiaries' and Associates' shares at a price exceeding the face value of those shares or differences between the face value and the fair value of shares issued for acquired companies.

Waste Electrical and Electronic Equipment Control

The principal environmental protection regulation specific to domestic appliances market, the Group complies with, is the European Union WEEE (“Waste Electrical and Electronic Equipment”) Directive, which makes manufacturers responsible at a European level for the financing of treatment, recovery and disposal of waste electrical and electronic products. Under this framework, countries have their own legal regulations in line with the Directive cited above, and responsibilities of the producers are implemented accordingly. In Turkey and European Union countries where the Group operates, the Group meets its responsibilities for financing and organizing the handling of waste electrical and electronic appliances through national compliance schemes.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. No provision is recognized for operating losses expected in later periods.

Warranty expenses

Warranty expenses includes repair and maintenance expenses for products sold and labor and material costs of authorized services' for products under the scope of the warranty terms without any charge to the customers. Based on estimations using past statistical information warranty services and returns of products, warranty expenses are recognized for the products sold in the period for possible utilizations of warranties in the following future periods (Note 18).

Assembly provisions

As a result of forecasts that are based on past experience and future expectations, assembly provisions expenses are recognized in the period, which the products are sold to dealers but not yet installed in the sites of the end customers, against the costs of future free of charge aforementioned instalments (Note 18).

Contingent assets and liabilities

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in the consolidated financial statements and are disclosed as contingent assets or liabilities (Note 17).

Contingent liabilities are disclosed in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. If an outflow of resources has become probable, contingent liabilities are recognised in the financial statements. Contingent assets are not recognised in financial statements but disclosed in the notes to the financial statements where an inflow of economic benefits is probable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

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

Earnings per share

Earnings per share presented in the consolidated statements of profit or loss are determined by dividing consolidated net income attributable to that class of shares by the weighted average number of such shares outstanding during the year concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings or inflation adjustments. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them retroactive effect for the year in which they were issued and for each earlier period.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the steering committee that makes strategic decisions. Board of Directors has been identified as the sole authority to decide on the operations (Note 4).

Reporting of cash flows

In the consolidated statements of cash flows, cash flows are classified and reported according to their operating, investing and financing activities.

2.4 Critical accounting estimates, judgments, and assumptions

The preparation of consolidated financial statements requires estimates and assumptions to be made regarding the amounts for the assets and liabilities at the balance sheet date, and explanations for the contingent assets and liabilities as well as the amounts of income and expenses realized in the reporting period. The Group makes estimates and assumptions concerning the future. The accounting estimates and assumptions, by definition, may not be equal the related actual results. The estimates and assumptions that may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Impairment test for intangible assets which have indefinite useful lives and goodwill:

In accordance with the accounting policy for the intangible assets which have indefinite useful lives and goodwill stated in Note 2.3, these assets are reviewed for impairment annually or whenever events or changes in circumstances indicate impairment by the Group. The recoverable amounts of the cash-generating units are determined using the methods of value in use and royalty relief. Certain estimates were used in these calculations (Notes 14 and 15). Impairment was not identified as a result of these tests.

NOTE 3 - BUSINESS COMBINATIONS

No business combination has been realized in the year ending December 31,2017.

On November 2, 2016, the Group has acquired 100% of the shares of Pan Asia Private Equity Ltd., who owns 100% share in DEL (Private) Limited, Dawlance Private Limited and United Refrigeration Industries Limited (together be called as "Dawlance Group" hereinafter).

Dawlance Group is the market leader in white goods and home appliances in Pakistan and with this acquisition that will contribute to the Group's goals to grow in emerging markets. The amount transferred for the acquisition includes; the synergy that will be created, revenue increase, the future benefits to be obtained as a result of growth in market and labor force. These benefits are not recorded apart from goodwill because they do not meet identifiable asset criteria. Since the acquisition includes transfer of control, goodwill is recognized during the acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 3 - BUSINESS COMBINATIONS (Continued)

Purchase price and the fair values of acquired assets and liabilities as of the acquisition date are as follows:

Consideration paid- cash	749,545
Cash and cash equivalents	3,937
Trade receivables	38,547
Inventories	132,438
Other current assets	28,743
Tangible assets (Note 13)	163,879
Intangible assets (Note 14)	633,838
Other non-current assets	959
Borrowings	(151,202)
Trade and other payables	(39,807)
Other liabilities	(10,552)
Deferred tax liabilities (Note 32)	(204,216)
Total fair value of identifiable net assets	596,564
Goodwill (Note 15)	152,981
Total consideration	749,545

The Group used independent professional assessment companies for the valuation of property plant equipment, brand and customer relationships. The acquisition accounting has been finalized as of 31 December 2016 and the assets, liabilities and contingent liabilities determined based on TFRS 3, have been recorded based on their fair values at the date of acquisition.

During the acquisition period about the assessed assets and liabilities cash flows income and expenses in the business plan with predicted values utilizing financial market data and used for discounting this values after tax effect WACC determined as 15.4 %. When 1% relative risk factor for brand and customer relationships were added to this rate, the discount rate was determined as 16.4%. Brand and customer relationships were valued with relief-from-royalty and discounted cash flow methods. If EBITDA growth rate had been +/- 0.5% in calculation of discounted cash flows, amount of goodwill would have been 9.5% higher/lower. Originally, the discount rate is assumed to be 15.4%. Had the rate been assumed to be 0.5% higher and lower, goodwill amount would have been 10.9 % higher and 11.8% lower, respectively.

In the consolidated income statement, contribution to consolidated sales by Dawlance Group after the date of acquisition is TRY 88,787. In the same period, excluding the effects of inter-company sales profitability, the contribution by Dawlance Group to consolidated net profit of Arçelik Group amounts to TRY 5,736.

Had the financial statements of Dawlance Group been consolidated since January 1, 2016, the consolidated sales and net profit of Arçelik Group would have been higher TRY 648,111 and TRY 74,209 respectively.

As of December 31, 2016, the total amount of acquisition costs, which is included in the general and administrative expenses, is TRY 7,655.

The details of cash outflow due to acquisition are as follows:

Total consideration in cash	749,545
Cash and cash equivalents – acquired	(3,937)
Cash outflow due to acquisition of subsidiary (net)	745,608

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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

NOTE 4 - 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 year ended December 31, 2017 are as follows:

	White goods	Consumer electronics	Other	Total
Total segment revenue	15,255,309	2,726,021	2,859,283	20,840,613
Gross profit	5,052,607	555,007	898,585	6,506,199
Depreciation and amortization	423,232	93,181	42,469	558,882
Capital expenditures	819,701	136,764	41,447	997,912

- b) Operational segments which have been prepared in accordance with the reportable segments for the year ended December 31, 2016(*) are as follows:

	White goods	Consumer electronics	Other	Total
Total segment revenue	11,509,970	2,102,246	2,483,957	16,096,172
Gross profit	4,104,743	612,857	621,960	5,339,560
Depreciation and amortization	361,726	67,462	17,455	446,643
Capital expenditures	668,545	141,257	29,181	838,983

(*) Prior period comparative industrial segment reports have been reclassified to comply with the current period in order to enable the determination of the financial position and performance.

- c) Sales revenue grouped geographically based on the location of the customers for the years ended December 31 are shown as below:

2017	Turkey	Europe	Africa	Other	Total
Total segment revenue	8,125,012	8,953,340	1,413,628	2,348,633	20,840,613
2016	Turkey	Europe	Africa	Other	Total
Total segment revenue	6,449,459	7,190,997	1,107,561	1,348,155	16,096,172

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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

NOTE 5 - CASH AND CASH EQUIVALENTS

	December 31, 2017	December 31, 2016
Cash in hand	592	608
Cash at banks		
- demand deposits	354,745	538,957
- time deposits	2,026,021	1,774,982
Cheques and notes	111,538	90,240
Other	87,997	36,865
Cash and cash equivalents in cash flow statement	2,580,893	2,441,652
Interest income accruals	1,071	219
	2,581,964	2,441,871

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

Up to 30 days	2,389,520	2,291,112
30-90 days	192,444	150,759
	2,581,964	2,441,871

NOTE 6 - FINANCIAL INVESTMENTS

Available-for-sale investments

	December 31, 2017		December 31, 2016	
	(%)	TRY	(%)	TRY
Tat Gıda Sanayi A.Ş.	0.34	2,473	0.34	2,656
Other		79		79
		2,552		2,735

The details of financial investments for the years ended December 31, are as follows:

	2017	2016
As of January 1	2,735	539,176
Change in fair value	(183)	22,141
Sale of financial asset (Note 29, 34)	-	(558,582)
As of December 31	2,552	2,735

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 gain (net) arising from the changes in the fair value of Tat Gıda Sanayi A.Ş., the available for sale investment, amounting to TRY 174 (December 31, 2016: TRY 1,181) and net of deferred tax effect amounting to TRY 9 (December 31, 2016: TRY 62) have been recognized in consolidated shareholders' equity under the "Gain/losses on remeasuring and/or reclassification of available-for-sale financial assets" in the year ended December 31, 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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

NOTE 7 - FINANCIAL LIABILITIES

a) Short-term financial liabilities

	December 31, 2017	December 31, 2016
Short-term bank borrowings	945,262	1,169,875
Payables from factoring activities (*)	88,681	68,370
Other	474	913
Total short-term financial liabilities	1,034,417	1,239,158
Short-term portion of long-term bank borrowings and interest accruals	2,186,766	975,119
Interest accruals of long-term bond issued (**)	41,004	36,297
Total short-term portion of long-term financial liabilities	2,227,770	1,011,416

(*) Factoring liabilities are amounting to TRY 54,361 denominated in EUR (December 31, 2016: TRY 43,237), TRY 34,320 denominated in GBP (December 31, 2016: TRY 23,398) and interest rates are between 0.6% for EUR (December 31, 2016: 0.55%-0.62%) and 1.12% for GBP (December 31, 2016: 1%). As of December 2017, 31 there is no factoring liability denominated in USD (December 31, 2016: TRY 1,735 interest rate: 1.4%).

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

Currency	Effective interest rate per annum (%)	Original currency	TRY equivalent
TRY	12.1	439,846,256	439,847
EUR	0.5	60,274,542	272,170
PKR	6.5	5,916,135,178	200,675
ZAR	8.5	60,000,000	18,456
CNY	4.4	23,908,664	13,777
SEK	0.5	569,354	260
USD	2.2	20,366	77
			945,262

As of December 31, 2016, the details of short-term bank borrowings are as follows:

Para birimi	Effective interest rate per annum (%)	Original currency	TRY equivalent
TRY	9.3	667,557,336	667,557
EUR	0.9	71,453,290	265,084
PKR	6.3	5,431,958,291	181,807
CNY	4.4	110,026,583	55,427
			1,169,875

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 7 - FINANCIAL LIABILITIES (Continued)
b) Long-term financial liabilities

	December 31, 2017	December 31, 2016
Long-term bank borrowings	661,519	364,884
Long-term bonds issued	3,451,294	3,040,539
Other	1,103	1,658
	4,113,916	3,407,081

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	2,349,411,597	2,349,412
EUR	2.6	44,454,182	200,733
ZAR	9.5	750,000,000	230,003
PKR	6.3	2,008,803,835	68,137
			2,848,285
Short-term portion of long-term loans and interest accruals			(2,186,766)
			661,519

As of December 31, 2016, the details of the long-term bank borrowings are as follows:

Currency	Effective interest rate per annum (%)	Original currency	TRY equivalent
TRY	11.7	872,327,083	872,327
EUR	2.6	66,821,668	247,901
ZAR	9.9	750,000,000	192,548
RUB	8.9	475,000,000	27,227
			1,340,003
Short-term portion of long-term loans and interest accruals			(975,119)
			364,884

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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

NOTE 7 - FINANCIAL LIABILITIES (Continued)

As of December 31, 2016, 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	503,674,810	1,772,532
EUR	4.0	351,573,811	1,304,304
			3,076,836
Interest accruals of long-term bonds issued			(36,297)
			3,040,539

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

	December 31, 2017	December 31, 2016
2018	-	282,442
2019	440,344	82,442
2020	221,175	-
2021	1,580,425	1,298,465
2023	1,885,950	1,759,600
	4,127,894	3,422,949

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

	December 31, 2017	December 31, 2016
Up to 3 months	1,730,745	923,813
3 - 12 months	1,482,809	547,688
1-5 years	2,088,609	2,323,349
Over 5 years	1,885,950	1,759,600
	7,188,113	5,554,450

Net financial debt reconciliation

As of December 31, 2017, and 2016, the net financial debt reconciliation is as follows:

	2017	2016
Cash and cash equivalents	2,581,964	2,441,871
Borrowings and bill of exchange – repayable within one year	(3,262,187)	(2,250,574)
Borrowings and bill of exchange – repayable after one year	(4,113,916)	(3,407,081)
Net debt	(4,794,139)	(3,215,784)
	2017	2016
Cash and cash equivalents	2,581,964	2,441,871
Borrowings and bill of exchange - fixed interest rates	(6,800,998)	(4,815,401)
Borrowings and bill of exchange – floating interest rate	(575,105)	(842,254)
Net debt	(4,794,139)	(3,215,784)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 7 - FINANCIAL LIABILITIES (Continued)

2017	Borrowings and bonds issued due within 1 year	Borrowings and bonds issued due after 1 year	Total
Net debt as of January 1st	(2,250,574)	(3,407,081)	(5,657,655)
Cash flows	(985,436)	(383,561)	(1,368,997)
Changes in factoring liabilities	(20,311)	-	(20,311)
Currency translation adjustments	(5,866)	(323,274)	(329,141)
Net debt as of December 31th	(3,262,187)	(4,113,916)	(7,376,103)

NOTE 8 - 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.

	December 31, 2017			December 31, 2016		
	Contract amount	Fair value assets/(liabilities)		Contract amount	Fair value assets/ /(liabilities)	
Held for trading:						
Short-term derivative instruments						
Forward transactions	1,539,368	2,607	(10,007)	1,035,792	2,039	(2,183)
Foreign currency swap contracts	2,868,887	6,526	(3,881)	2,403,272	2,765	(2,202)
	4,408,255	9,133	(13,888)	3,439,064	4,804	(4,385)

Long-term derivative instruments

Cross-currency fixed interest rate swap (*)	2,596,351	38,249	-	2,294,713	178,882	-
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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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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

NOTE 9 - TRADE RECEIVABLES AND PAYABLES

	December 31, 2017	December 31, 2016
Short-term trade receivables:		
Trade receivables	4,871,934	3,529,754
Notes receivables	1,545,334	1,649,614
Cheques receivables	273,545	273,467
Short-term trade receivables (gross)	6,690,813	5,452,835
Provision for doubtful receivables	(167,090)	(137,168)
Unearned credit finance income	(19,714)	(26,902)
Short-term trade receivables (net)	6,504,009	5,288,765

As of December 31, 2017, the Group has offsetted TRY 833,682 (December 31, 2016: TRY 615,332) 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 18,483 related with its local bank borrowings (December 31, 2016: TRY 51,331).

The movements of provision for doubtful receivables for the years ended December 31, are as follows:

	2017	2016
As of January, 1	137,168	110,601
Current year additions (Note 28)	28,853	27,065
Provisions no longer required (Note 28)	(1,867)	(2,883)
Write-offs (*)	(4,932)	(8,867)
Acquisitions	-	4,368
Currency translation differences	7,868	6,884
As of December, 31	167,090	137,168

(*) 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.

	December 31, 2017	December 31, 2016
Long-term trade receivables	12,429	24,484
	December 31, 2017	December 31, 2016
Short-term trade payables:		
Trade payables	2,845,593	2,455,560
Debt accruals	216,562	140,455
Unearned credit finance charges	(37,535)	(16,190)
	3,024,620	2,579,825

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 10 - OTHER PAYABLES

	December 31, 2017	December 31, 2016
Taxes and duties payable	162,273	173,224
Dividend payables to shareholders	6,141	5,242
Deposits and guarantees received	5,272	6,360
Other	68,969	36,047
	242,655	220,873

NOTE 11 - INVENTORIES

	December 31, 2017	December 31, 2016
Raw materials and supplies	1,460,439	1,092,288
Work in progress	122,335	98,748
Finished goods	1,778,062	1,366,939
Trade goods	504,068	296,263
Inventories (gross)	3,864,904	2,854,238
Provision for impairment on inventories	(84,976)	(92,668)
Inventories (net)	3,779,928	2,761,570

In line with the general financial market convention in Pakistan, Dawlance has hypothecation on its inventories amounting to TRY 37,727 related with its local bank borrowings (December 31, 2016: TRY 130,476).

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

	December 31, 2017	December 31, 2016
Raw materials and supplies	58,060	62,709
Finished goods	21,587	26,850
Trade goods	5,329	3,109
	84,976	92,668

Movements of provision for impairment on inventories for the periods ended December 31 are as follows:

	2017	2016
As of January 1	92,668	67,072
Current year additions (Note 28)	13,142	22,450
Realized due to sales of inventory	(23,846)	(7,018)
Acquisitions	-	6,556
Currency translation differences	3,012	3,608
As of December 31	84,976	92,668

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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

NOTE 12 - ASSOCIATES

	December 31, 2017		December 31, 2016	
	(%)	TRY	(%)	TRY
Koç Finansman	47.0	132,227	47.0	104,059
Arçelik - LG	45.0	116,480	45.0	114,280
Ram Dış Ticaret	33.5	11,055	33.5	10,372
Tanı Pazarlama	32.0	6,003	32.0	7,379
VoltBek	49.0	16,496	-	-
		282,261		236,090

The movements of associates for the years ended December 31, are as follows:

	2017	2016
As of January 1	236,090	209,881
Shares of income/loss of associates	39,090	34,857
Shares of other comprehensive income/loss of associates	773	3,902
Gross profit elimination on inventory	567	200
Dividends received	(13,085)	(12,750)
Share participation in associates	19,002	-
Currency translation difference	(176)	-
As of December 31	282,261	236,090

Shares of income/loss from associates:

	2017	2016
Koç Finansman	36,408	19,297
Arçelik - LG	2,036	15,574
Ram Dış Ticaret	4,351	659
Tanı Pazarlama	(1,375)	(673)
VoltBek	(2,330)	-
	39,090	34,857

Aggregated summary figures of the financial statements of associates:

	December 31, 2017	December 31, 2016
Total assets	5,102,179	4,584,127
Total liabilities	4,476,576	4,054,751
	2017	2016
Net sales	2,763,719	2,108,567
Profit/loss for the period (net)	87,184	75,975

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 13 - PROPERTY, PLANT AND EQUIPMENT

	January 1, 2017	Additions	Disposals	Transfers	Currency Translation Differences	December 31, 2017
Cost						
Land	135,074	616	-	30	9,655	145,375
Land improvements	42,488	1,086	-	295	435	44,304
Buildings	888,448	9,814	(3,044)	5,172	59,506	959,896
Machinery, equipment and moulds	4,321,491	63,426	(88,201)	239,713	178,133	4,714,562
Motor vehicles and Fixtures	605,258	75,480	(9,270)	21,984	25,214	718,666
Leasehold improvements	53,867	7,383	(31)	168	3,587	64,974
Construction in progress	185,121	575,539	(119)	(267,362)	9,290	502,469
	6,231,747	733,344	(100,665)	-	285,820	7,150,246
Accumulated depreciation						
Land improvements	(26,277)	(1,977)	-	-	(5)	(28,259)
Buildings	(267,483)	(19,475)	13	-	(13,448)	(300,393)
Machinery, equipment and moulds	(2,766,735)	(307,973)	81,355	-	(81,119)	(3,074,472)
Motor vehicles and Fixtures	(365,894)	(62,041)	8,299	-	(14,117)	(433,753)
Leasehold improvements	(43,059)	(4,245)	2	-	(1,296)	(48,598)
	(3,469,448)	(395,711)	89,669	-	(109,985)	(3,885,475)
Net book value	2,762,299					3,264,771

There is no mortgage on property, plant and equipment as of December 31, 2017 (December 31, 2016: None).

	January 1, 2016	Acquisitions	Additions	Disposals	Transfers	Currency Translation Differences	December 31, 2016
Cost							
Land	47,939	39,913	28	-	32,820	13,374	135,074
Land improvements	40,605	-	1,233	-	559	91	42,488
Buildings	614,813	66,907	89,993	(212)	35,938	81,009	888,448
Machinery, equipment and moulds	3,668,047	117,905	157,164	(69,991)	252,195	196,171	4,321,491
Motor vehicles and Fixtures	491,450	11,839	27,723	(12,236)	63,829	22,653	605,258
Leasehold improvements	48,635	-	4,211	-	(710)	1,731	53,867
Construction in progress	179,411	1,552	360,694	-	(372,157)	15,621	185,121
	5,090,900	238,116	641,046	(82,439)	12,474	331,650	6,231,747
Accumulated depreciation							
Land improvements	(24,354)	-	(1,923)	-	-	-	(26,277)
Buildings	(229,619)	(6,968)	(15,021)	142	(644)	(15,373)	(267,483)
Machinery, equipment and moulds	(2,433,425)	(61,230)	(248,993)	66,603	-	(89,690)	(2,766,735)
Motor vehicles and Fixtures	(307,779)	(6,039)	(51,930)	11,569	-	(11,715)	(365,894)
Leasehold improvements	(40,048)	-	(2,829)	-	58	(240)	(43,059)
	(3,035,225)	(74,237)	(320,696)	78,314	(586)	(117,018)	(3,469,448)
Net book value	2,055,675						2,762,299

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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

NOTE 14 – OTHER INTANGIBLE ASSETS

	January 1, 2017	Additions	Disposals	Currency translation differences	December 31, 2017
Cost					
Brands	924,497	-	-	127,785	1,052,282
Development costs	894,593	224,704	-	-	1,119,297
Computer software and rights	212,335	39,864	(7,251)	4,778	249,726
Trademark licenses and patents	28,000	-	-	5,988	33,988
Customer relationships	482,599	-	-	6,489	489,088
	2,542,024	264,568	(7,251)	145,040	2,944,381
Accumulated amortization					
Development costs	(459,894)	(114,881)	-	-	(574,775)
Computer software and rights	(140,157)	(24,527)	362	(4,096)	(168,418)
Trademark licenses and patents	(27,673)	(114)	-	(5,961)	(33,748)
Customer relationships	(3,792)	(23,649)	-	339	(27,102)
	(631,516)	(163,171)	362	(9,718)	(804,043)
Net book value	1,910,508				2,140,338

Net carrying value of the development costs as of December 31, 2017 is TRY 544,522 (December 31, 2016: TRY 434,699) and capitalized development costs for the period is TRY 224,704 (January 1 - December 31, 2016: TRY 155,860).

As of December 31, 2017, total amount of borrowing costs capitalized is none. (December 31, 2016: TRY 56).

	January 1, 2016	Acquisitions	Additions	Disposals	Transfers	Currency translation differences	December 31, 2016
Cost							
Brands	577,198	209,566	4	-	-	137,729	924,497
Development costs	738,677	-	155,916	-	-	-	894,593
Computer software and rights	168,187	1,848	41,950	(1,801)	(1,219)	3,370	212,335
Trademark licenses and patents	22,795	162	67	(206)	1,219	3,963	28,000
Customer relationships	-	424,058	-	-	-	58,541	482,599
	1,506,857	635,634	197,937	(2,007)	-	203,603	2,542,024
Accumulated amortization							
Development costs	(358,260)	-	(101,634)	-	-	-	(459,894)
Computer software and rights	(118,392)	(1,714)	(20,442)	1,451	1,059	(2,119)	(140,157)
Trademark licenses and patents	(22,725)	(82)	(79)	206	(1,059)	(3,934)	(27,673)
Customer relationships	-	-	(3,792)	-	-	-	(3,792)
	(499,377)	(1,796)	(125,947)	1,657	-	(6,053)	(631,516)
Net book value	1,007,480						1,910,508

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 14 – OTHER INTANGIBLE ASSETS (Continued)

The carrying values of the brands of the Group are as below:

	31 Aralık 2017	31 Aralık 2016
Grundig (*)	388,613	319,280
Defy (*)	319,613	267,565
Dawlance	241,703	238,496
Beko	81,040	81,040
Other brands (*)	21,313	18,116
	1,052,282	924,497

(*) Values of brands in their original currencies are same as of December 31, 2017 and 2016 and the difference arises from foreign currency translation.

Brands impairment test

Brands were tested for impairment using the royalty relief method as of December 31, 2017. Sales forecasts which are based on financial plans approved by the board of directors covering five-year period were considered in the determination of the brand value, Sales forecasts beyond the three and five-year period are extrapolated with 3% expected growth rate, the estimated royalty income is calculated by applying the expected 3% royalty rate, the royalty income calculated with the aforementioned method has been discounted with 8.5% to 14.2% discount rates.

Fair value of brands is around 8.0 times of carrying value of these assets. If the estimated after-tax discount rate used for the calculation of discounted cash flows had been 1% higher than the management's estimate, fair value of brands would be 6.8 of carrying value of these asset. As a result of these sensitivity analysis, the Group did not identify any impairment.

NOTE 15 – GOODWILL

	2017	2016
As of January 1	393,752	163,450
Acquisitions (Note 3)	-	152,981
Currency translation differences	44,360	77,321
As of December 31	438,112	393,752

Details of goodwill are as follows:

	December 31, 2017	December 31, 2016
Defy and its subsidiaries	249,241	208,653
Dawlance and its subsidiaries	176,441	174,100
Other	12,430	10,999
	438,112	393,752

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 15 – GOODWILL (Continued)

Goodwill impairment test

Goodwill is subject to impairment test every year. The recoverable amounts of cash generating units are determined on value in use basis.

Value in use is determined by discounting the expected future cash flows to be generated by the cash-generating unit. The below key assumptions are used in the calculation of the value in use as of December 31, 2017.

The projection period for the purposes of goodwill impairment testing is approved by the board of directors as 5 years between January 1, 2018 and December 31, 2022.

Cash flows for further periods (perpetuity) were extrapolated using a constant growth rate of 1% - 5% which does not exceed the estimated average growth rate of economy of the country.

Weighted average cost of capital rate of 8.50% - 14.12% is used as after-tax discount rate in order to calculate the recoverable amount of the unit.

The post-tax rate was adjusted considering the tax cash outflows and other future tax cash flows and differences between the cost of the assets and their tax bases.

Defy Group operations as a cash generating unit and sensitivity to the changes in assumptions in impairment test

Recoverable value of cash generating unit is 18% above of goodwill included book value of related cash generating unit. In the calculation of the present value of future cash flows, estimations on earnings before interest tax depreciation amortization ("EBITDA"), long term growth rate and discount rates are taken into account.

EBITDA growth expectations

In original assumption, five-year compound average growth rate of EBITDA is 5%. Had the compound average growth rate been assumed to be 4%, the recoverable amount would have been calculated as 11% above the goodwill included book value of cash generating unit and resulting no impairment provision.

Long term growth rate

Originally, the long-term growth rate is assumed to be 3%. Had the rate been assumed to be 2%, the recoverable amount would have been 12% above the goodwill included book value of cash generating unit and resulting no impairment provision would have been provided for.

Discount rate

Originally, the discount rate is assumed to be 12.81%. Had the rate been assumed to be 13.81%, the recoverable amount would have been 6% above the goodwill included book value of cash generating unit and resulting no impairment provision would have been provided for.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 15 – GOODWILL (Continued)

Dawlance Group operations as a cash generating unit and sensitivity to the changes in assumptions in impairment test

Recoverable value of cash generating unit is 142% above of goodwill included book value of related cash generating unit. In the calculation of the present value of future cash flows, estimations on earnings before interest tax depreciation amortization ("EBITDA"), long term growth rate and discount rates are taken into account.

EBITDA growth expectations

In original assumption, five-year compound average growth rate of EBITDA is 21.6%. Had the compound average growth rate been assumed to be 20.6%, the recoverable amount would have been calculated as 126% above the goodwill included book value of cash generating unit and resulting no impairment provision.

Long term growth rate

Originally, the long-term growth rate is assumed to be 5%. Had the rate been assumed to be 4%, the recoverable amount would have been 123% above the goodwill included book value of cash generating unit and resulting no impairment provision would have been provided for.

Discount rate

Originally, the discount rate is assumed to be 14.12%. Had the rate been assumed to be %15.12, the recoverable amount would have been 113% above the goodwill included book value of cash generating unit and resulting no impairment provision would have been provided for.

NOTE 16 - GOVERNMENT GRANTS

There are investment incentive certificates to which the Company has been entitled by the official authorities in connection with certain capital expenditures. The grants obtained by the Company in nature are as follows:

- a) 100% exemption from customs duty on machinery and equipment to be imported,
- b) Value-added tax exemption with respect to purchases of investment goods both from domestic and export markets,
- c) Incentives under the jurisdiction of the research and development law (100% corporate tax exemption, Social Security Institution incentives, etc.),
- d) Inward processing permission certificates,
- e) Cash refund from Tübitak - Teydeb for research and development expenses,
- f) Taxes and funds exemptions for R&D centres which are regulated under research and development law.
- g) Discounted corporate tax incentive,
- h) Insurance premium employer share incentive,
- i) Brand support incentive (known as "Turquality") given by Republic of Turkey Ministry of Economy.
- j) Grant has been received from the United Nations Industrial Development Organization (UNIDO) and from the Department of Trade and Industry of Romania and Republic of South Africa for the purchase of certain items of plant and equipment. All conditions of the grant have been fulfilled in 2017.

Grants which are accounted for under other income from operating activities for year ended December 31, 2017 are as follows:

- i) Research and development incentive premiums taken or certain to be taken amounts to TRY 5,010 (December 31, 2016: TRY 4,783).
- ii) Brand support incentive (known as "Turquality") received from Republic of Turkey Ministry of Economy amounts to TRY 51,010 (December 31, 2016: TRY 182,866).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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

NOTE 17 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

As of December 31, 2017, export commitments from Turkey under the scope of inward processing authorization certificates as export incentives amounts to full USD 301,896,261 (December 31, 2016: USD 422,783,406). 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:

	December 31, 2017	December 31, 2016
Up to 1 year	57,426	40,247
1-5 years	139,473	87,753
Over 5 years	90,202	7,531
Operating lease commitments	287,101	135,531

Derivative instruments contracts commitments

TRY equivalents of the Group's foreign exchange purchase and sales commitments in terms of currencies as of December 31, 2017 and December 31, 2016 are as follows:

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	-
PLN	-	1,828
ROL	-	139,810
RUB	125,833	12,582
RSD	31,534	42,946
THB	22,313	112,638
NZD	-	30,564
	3,572,685	3,431,921

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 17 - COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES (Continued)

December 31, 2016	Purchase Commitments	Sales Commitments
TRY	-	444,416
USD	1,662,437	50,904
EUR	879,118	1,147,516
AUD	14,712	83,071
CZK	-	35,101
CNY	47,685	128,183
DKK	-	38,864
ZAR	-	149,555
GBP	-	466,022
SEK	37,066	-
CHF	147,387	-
CAD	-	4,692
MYR	-	8,805
NOK	38,717	20,701
PLN	4,212	99,413
ROL	162,783	-
RUB	-	33,819
RSD	-	5,733
THB	7,087	-
NZD	-	15,778
	3,001,204	2,732,573

	December 31, 2017	December 31, 2016
Collaterals obtained	2,911,732	3,092,142

Collaterals/ pledges/ mortgages/bill of guarantees (“CPMB”) position of the Group as of December 31, 2017 and December 31, 2016 are as follows:

CPMB’s given by the Company	December 31, 2017	December 31, 2016
A. CPMB’s given for Company’s own legal personality	623,454	700,641
B. CPMB’s given on behalf of fully consolidated companies	993	816
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	624,447	701,457

TRY equivalents of CPMB given as of December 31, 2017 and December 31, 2016 are as follows on original currency basis are as follows:

CPMB’s given by the Company	December 31, 2017	December 31, 2016
USD	532,667	632,996
TRY	59,250	51,173
EUR	14,814	11,868
Other currencies	17,716	5,420
	624,447	701,457

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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

NOTE 18 – OTHER PROVISIONS

	December 31, 2017	December 31, 2016
Other short-term provisions		
Warranty provision	215,208	226,251
Assembly provision	98,210	73,118
Provision for transportation cost	49,303	31,260
Provision for returns	10,242	7,096
Provision for lawsuit risks	9,596	9,501
Other	48,071	65,134
	430,630	412,360
Other long-term provisions		
Warranty provision	232,137	139,855
Other	26	381
	232,163	140,236

The movements of warranty and assembly provisions for the years ended December 31, are as follows:

Warranty provision	2017	2016
As of January 1	366,106	303,277
Acquisition	-	3,010
Additions	574,503	483,752
Disposals	(533,284)	(447,237)
Currency translation differences	40,020	23,304
As of December 31	447,345	366,106
Assembly provision	2017	2016
As of January 1	73,118	64,693
Additions	309,784	278,181
Disposals	(284,692)	(269,756)
As of December 31	98,210	73,118

NOTE 19 - LONG TERM PROVISION FOR EMPLOYEE BENEFITS

	December 31, 2017	December 31, 2016
Provision for employment termination benefits	211,995	201,155
Provision for vacation pay liability	29,763	26,416
	241,758	227,571

Under the Turkish Legislations, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service and reaches the retirement age (58 for women and 60 for men).

The amount payable consists of one month's salary limited to a maximum of full TRY 4,732.48 as of December 31, 2017 (December 31, 2016: full TRY 4,297,21) for each period of service.

The provision for employee termination benefits is not funded, as there is no funding requirement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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

NOTE 19 - LONG TERM PROVISION FOR EMPLOYEE BENEFITS (Continued)

In accordance with Turkish Labor Code, employment termination benefit is the present value of the total estimated provision for the liabilities of the personnel who may retire in the future, The provision made for present value of determined social relief is calculated by the prescribed liability method, All actuarial gains and losses are accounted in equity as other comprehensive income or loss.

TFRS require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans, The Group makes a calculation for the employment termination benefit by applying the prescribed liability method, by the experiences and by considering the personnel who become eligible for pension, this provision is calculated by expecting the present value of the future liability which will be paid for the retired personnel.

Accordingly, the following demographic and financial actuarial assumptions were used in the calculation of the total liability:

	2017	2016
Net discount rate (%)	4.95	4.50
Turnover rate related the probability of retirement (%)	96.24	96.30

The principal assumption is that the maximum liability for each year of service will increase in line with inflation, Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation, As the maximum liability is revised semi-annually, the maximum amount of full TRY 5,001.76 (January 1, 2016: full TRY 4,426.16) which is effective from January 1, 2018 has been taken into consideration in calculating the reserve for employment termination benefits of the Company.

Movements in the provisions for employment termination benefits for the years ended December 31, are as follows:

	2017	2016
As of January 1	201,155	171,630
Interest expense	15,122	14,209
Actuarial losses	22,491	45,089
Acquisitions	-	47
Service cost	14,569	11,244
Payments during the year	(42,562)	(41,908)
Currency translation differences	1,220	844
As of December 31	211,995	201,155

There are defined benefits having the attributes of employment termination benefits in the foreign subsidiaries of the company. The geographical distribution of provision for employment termination benefits is as follows:

Turkey	207,952	197,742
Non – Turkey	4,043	3,413
	211,995	201,155

The sensitivity analysis of the assumption which was used for the calculation of provision for employment termination benefits as of 31 December 2017 is below:

Sensitivity level	Net discount rate		Turnover rate related the probability of retirement	
	%0.5 decrease	%0.5 decrease	%0.5 decrease	%0.5 decrease
Rate	(4.5%)	(5.5%)	(95.7%)	(96.7%)
Change in employee benefits liability	9,452	(8,739)	(4,691)	5,184

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 20 – PREPAID EXPENSES

	December 31, 2017	December 31, 2016
Advances given for fixed assets	109,077	13,441
Short-term prepaid expenses	91,686	88,004
Advances given for inventories	15,000	17,709
	215,763	119,154

NOTE 21 – CURRENT INCOME TAX ASSETS

	December 31, 2017	December 31, 2016
Prepaid taxes and funds	106,532	74,629

NOTE 22 – EMPLOYEE BENEFIT OBLIGATIONS

	December 31, 2017	December 31, 2016
Payables to personnel	195,858	135,737
Social security payables	104,492	93,003
Accruals for bonuses and premiums	23,164	17,558
	323,515	246,298

NOTE 23 - OTHER ASSETS AND LIABILITIES

	December 31, 2017	December 31, 2016
Other current assets:		
Value added tax and private consumption tax receivable	291,663	149,004
Taxes and funds deductible	62,911	79,779
Income accruals	7,645	22,904
Other	36,619	24,888
	398,838	276,575
Other current liabilities:		
Accruals for customer premiums	431,528	292,914
Advances received	66,448	47,686
Other	8,836	5,024
	506,812	345,624

NOTE 24 - 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:

	December 31, 2017	December 31, 2016
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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

NOTE 24 – EQUITY (Continued)

The shareholding structure of the Company is as follows:

	December 31, 2017		December 31, 2016	
	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/TFRS 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.

Contribution to shareholders' equity related to the merger

Contribution to shareholders' 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:

	December 31, 2017	December 31, 2016
Genel kanuni yedek akçe	83,690	83,690
Diğer kanuni yedek akçe	285,303	246,182
	368,993	329,872

As agreed in the ordinary general meeting dated March 23, 2017, the decision to pay dividend as cash has been taken and the payment was made in April 2017 (previous year in April 2016). The dividend details are as follows: 62.9% (2016: 38.8%) corresponding to gross TRY 0.62895 (full) (2016: TRY 0.38773 (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; 62.9% (2016: 38.8%) corresponding to gross TRY 0.62895 (full) (2016: gross TRY 0.38773 (full)) and net TRY 0.53461 (full) (2016: net TRY 0.32957 (full)) per share of TRY 1.00 (full) nominal value to the other shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 24 – EQUITY (Continued)

Retained earnings

Accumulated profits other than net profit for the period are reported in this account. Extraordinary reserves which are not restricted and accordingly considered as accumulated profit is accounted in this account.

Dividend distribution

Listed companies distribute dividend in accordance with the Communiqué No, II-19.1 issued by the CMB which is effective from February 1, 2014.

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of incorporation. In addition, dividend can be distributed by fixed or variable instalments and advance dividend can be paid in accordance with profit on interim financial statements of the Company.

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

As of December 31, 2017, total amount of current year income in the statutory records and other reserves that can be subject to the dividend distribution of the Company is TRY 715,105 (December 31, 2016: TRY 755,518).

NOTE 25 - SALES AND COST OF SALES

	2017	2016
Domestic sales	8,223,030	6,897,695
Foreign sales	15,450,158	11,204,569
Gross sales	23,673,188	18,102,264
Discounts	(2,832,575)	(2,006,092)
Net sales	20,840,613	16,096,172
Cost of sales	(14,334,414)	(10,756,612)
Gross profit	6,506,199	5,339,560

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 26 -RESEARCH AND DEVELOPMENT EXPENSES, MARKETING EXPENSES AND GENERAL ADMINISTRATIVE EXPENSES

	2017	2016
Marketing expenses:		
Transportation, distribution and storage expenses	1,220,581	915,471
Warranty and assembly expenses	884,287	761,933
Advertising and promotion expenses	656,153	574,109
Personnel expenses	645,432	500,292
Depreciation and amortization expenses	90,662	37,393
License expenses	57,241	52,838
Energy expenses	9,065	7,110
Other	464,278	378,178
	4,027,699	3,227,324
General administrative expenses:		
Personnel expenses	491,512	375,936
Information technology expenses	78,097	43,141
Insurance expenses	55,075	47,269
Depreciation and amortization expenses	44,608	56,828
Legal consultancy and audit expenses	38,674	40,257
Rent expenses	31,563	22,507
Duties, taxes and levies	20,777	17,121
Donations	13,016	15,407
Repair and maintenance expense	9,621	6,997
Energy expenses	8,580	6,619
Other	145,056	130,709
	936,579	762,791
Research and development expenses (*):		
Depreciation and amortization expenses	115,842	99,738
Personnel expenses	34,526	29,124
Energy expenses	3,016	2,961
Other	16,793	19,845
	170,177	151,668

(*) Total research and development expenditures in the year, including development costs capitalized, were realized as TRY 279,462 in 2017 (December 31, 2016: TRY 207,790).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 27 - EXPENSES BY NATURE

	2017	2016
Raw materials, supplies and trade goods	13,188,336	9,817,005
Changes in finished goods, work in process and trade goods	(642,515)	(501,482)
Personnel expenses	2,264,310	1,793,407
Transportation, distribution and storage expenses	1,322,636	1,001,071
Warranty and assembly expenses	884,287	761,933
Advertising and promotion expenses	656,153	574,109
Depreciation and amortization expenses	548,187	438,682
Foreign exchange loss arising from trading activities	232,840	245,602
Energy expenses	130,972	109,072
Repair and maintenance expenses	102,005	86,954
Insurance expenses	70,296	58,343
Legal consultancy and audit expenses	62,070	59,932
License expenses	57,241	52,838
Cash discounts expenses	39,320	24,912
Provision expense for doubtful receivables	28,853	27,065
Provision expense for impairment on inventories	13,142	22,450
Credit finance charges arising from trading activities	8,818	11,738
Other	873,669	704,537
	19,840,620	15,288,168

NOTE 28 - OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

	2017	2016
Other income from operating activities:		
Foreign exchange gains arising from trading activities	526,644	426,765
Income from claims and grants	67,314	198,860
Credit finance income arising from trading activities	61,506	25,557
Reversals of provisions	3,132	4,335
Reversal of provisions for doubtful receivables	1,867	2,883
Other	51,375	31,667
	711,838	690,067

Other expenses from operating activities:

Foreign exchange losses arising from trading activities	(232,840)	(245,602)
Cash discounts expenses	(39,320)	(24,912)
Provision expense for doubtful receivables (Note 9)	(28,853)	(27,065)
Provision expense for impairment on inventories (Note 11)	(13,142)	(22,450)
Credit finance charges arising from trading activities	(8,818)	(11,738)
Other	(48,778)	(58,006)
	(371,751)	(389,773)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 29 – INCOME AND EXPENSES FROM INVESTMENT ACTIVITIES

	2017	2016
Income from investment activities:		
Income from sales of financial investment (*) (Note 6, 34)	-	413,739
Income from sales of property plant and equipment	8,192	4,944
Dividends received from financial investments	93	59
	8,285	418,742
Expenses from investment activities:		
Loss from sales of property plant and equipment	(7,347)	(2,413)
	(7,347)	(2,413)

(*) The amount is related to income from sales of shares of Group's available for sale financial asset Koç Finansal Hizmetler A.Ş.

NOTE 30- FINANCIAL INCOME

	2017	2016
Foreign exchange gains (*)	714,398	424,314
Gains on derivative instruments	156,014	216,863
Interest income	30,578	28,350
Other	549	519
	901,539	670,046

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

NOTE 31 - FINANCIAL EXPENSES

	2017	2016
Foreign exchange losses (*)	(923,046)	(783,916)
Interest expenses	(574,914)	(440,986)
Losses on derivative instruments	(324,209)	(181,081)
Other	(10,332)	(11,639)
	(1,832,501)	(1,417,622)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 32 - TAX ASSETS AND LIABILITIES

	31 Aralık 2017	31 Aralık 2016
Corporation and income taxes	121,925	115,379
Prepaid tax	(93,872)	(92,016)
Tax liabilities (net)	28,053	23,363
Deferred tax assets	648,007	426,746
Deferred tax liabilities	(439,909)	(412,591)
Deferred tax assets/(liabilities), net	208,098	14,155

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 20% in Turkey (December 31, 2016: 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 years ended December 31 is as follows:

	2017	2016
Tax income		
- Current period tax expense	(194,034)	(100,195)
- Deferred tax income	218,440	202,664
Tax income	24,406	102,469

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 as of 31 December 2017 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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

NOTE 32 - 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)	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Property, plant and equipment and intangible assets	2,762,388	2,533,773	(685,411)	(617,996)
Derivative instruments	38,158	180,057	(8,422)	(36,012)
Unearned credit finance income/expense (net)	58,370	36,463	(12,841)	(7,293)
Available-for-sale investments	2,116	2,298	(106)	(115)
Unused tax advantages (*)	-	-	588,183	441,982
Unused tax credits	(148,021)	(174,213)	66,312	47,704
Provision for warranty, assembly and transportation expenses	(404,231)	(338,062)	90,683	70,641
Provision for employment termination benefits	(208,146)	(197,805)	41,639	39,560
Provision for impairment on inventories	(69,609)	(83,547)	14,822	18,171
Provision for doubtful receivables	(22,818)	(14,868)	5,932	4,268
Other	(436,188)	(219,956)	107,307	53,245
Deferred tax assets/(liabilities), net			208,098	14,155

(*) 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 December 31, 2017 the tax advantage of TRY 588,183 (December 31, 2016: TRY 441,892) in which the corporate income tax at reduced rates is determined by deducting accumulated depreciation in the calculation of the net value of property plant and equipment, from which the Company predicts to benefit in the foreseeable future is recognized as deferred tax asset in the consolidated financial statements.

Movements in deferred tax asset / (liabilities) for the periods ended December 31 are as follows:

	2017	2016
Balance as of January 1	14,155	49,012
Deferred tax income recognized in statement of profit or loss	218,440	202,664
Deferred tax effect on sales of financial investment	-	19,642
Deferred tax income recognized directly in the shareholders' equity	4,458	8,956
Acquisitions (Note 3)	-	(204,216)
Currency translation differences	(28,955)	(61,903)
Balance as of December 31	208,098	14,155

Group's total deductible loss of which deferred tax assets have not been calculated are TRY 538,564. Maturity analysis of this amount is as follows:

	December 31, 2017
2018	34,377
2019	30,544
2020	20,347
2021	82,034
2022 and after	371,262
	538,564

Subsidiaries' accumulated and undistributed profits are being used in financing investments and working capital requirements, and the dividend payments are subject to Group management's approval. Complete distribution of these accumulated profits is not anticipated as of balance sheet date, and consequently no resulting deferred tax liability is accrued. As of December 31, 2017, total gross accumulated distributable but undistributed profits of subsidiaries to parent entities amounts to TRY 2,051,192 (December 31, 2016: TRY 1,307,428).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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

NOTE 32 - TAX ASSETS AND LIABILITIES (Continued)

Reconciliation between tax expenses for the years ended December 31, 2017 and 2016 and calculated tax expense using corporate tax rate in Turkey (20%) is as follows:

	2017	2016
Profit before tax	820,897	1,201,681
Tax expense calculated using 20% local tax rate	(164,179)	(240,336)
Exemptions	70,966	118,086
Effect of unused tax losses for which no deferred tax asset was recognized	(25,431)	(16,940)
Expenses not deductible for tax purposes	(9,011)	(39,789)
Impact of different tax rates in other countries	(1,166)	12,666
Adjustments with no tax effects	5,784	75,816
Effect on deferred tax balances due to change in income tax rate from 20% to 22%	927	-
Utilization of previously unrecognized tax advantages	156,061	196,138
Other	(9,545)	(3,172)
Taxation income recognized in statement of profit or loss	24,406	102,469

NOTE 33 - 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:

	December 31, 2017	December 31, 2016
Net income	842,949	1,299,912
Weighted average number of ordinary shares with nominal value (kurus1 each one)	67,572,820,500	67,572,820,500
Earnings per share (kurus) (*)	1.247	1.924
Diluted earnings per share (kurus) (*)	1.247	1.924
Dividends distributed to the equity holders of the parent	425,102	262,000
Gross dividend distributed per share (kurus) (*)	0.629	0.388

(*) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 34 - RELATED PARTY DISCLOSURES
(i) Balances with related parties

	December 31, 2017	December 31, 2016
(a) Due from related parties:		
Koçtaş Yapı Marketleri Ticaret A.Ş. (1)	4,466	2,318
Yapı ve Kredi Bankası A.Ş. (1)	4,209	2,818
Koç Üniversitesi (1)	2,034	-
Other	2,900	1,368
	13,609	6,504

(b) Due to related parties:
Current:

Arçelik-LG (2)	256,126	251,160
Zer Merkezi Hizmetler ve Ticaret A.Ş. (1)	153,813	133,419
Ram Dış Ticaret (2)	63,685	46,527
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. (1)	21,658	19,793
Koç Holding A.Ş. (3)	21,646	22,261
Other	34,020	33,004
	550,948	506,164

(1) Koç Holding group companies

(2) Associates

(3) Parent company

	December 31, 2017	December 31, 2016
Other payables to related parties – Current:		
Zer Merkezi Hizmetler ve Ticaret A.Ş. (*)	19,267	16,238
Other	445	384
	19,712	16,622

Other payables to related parties – Non-Current:

Zer Merkezi Hizmetler ve Ticaret A.Ş. (*)	39,357	55,141
Other	889	1,151
	40,246	56,292

(*) 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 December 31, 2017. (December 31, 2016: TRY 81,040).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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

NOTE 34 - RELATED PARTY DISCLOSURES (Continued)

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

	December 31, 2017	December 31, 2016
Other payables to related parties (gross)		
Up to 1 year	20,436	20,021
1 to 5 years	40,872	61,046
	61,308	81,067
Future finance charges on other liabilities	(1,350)	(8,153)
Present value of other payables to related parties (net)	59,958	72,914

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

	December 31, 2017	December 31, 2016
Up to 1 year	19,712	16,622
1 to 5 years	40,246	56,292
	59,958	72,914

(c) Deposits:

Yapı ve Kredi Bankası A.Ş. and its subsidiaries ⁽¹⁾	246,664	441,508
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(d) Bank borrowings:

Yapı ve Kredi Bankası A.Ş. and its subsidiaries	18,773	129,985
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(1) Koç Holding group companies

(e) Derivative instruments

December 31, 2017	Contract amount	Fair value assets/(liabilities)	
Yapı ve Kredi Bankası A.Ş. and its subsidiaries	377,713	158	(401)

December 31, 2016	Contract amount	Fair value assets/(liabilities)	
Yapı ve Kredi Bankası A.Ş. and its subsidiaries	260,924	1,558	(156)

(ii) Transactions with related parties

	2017	2016
(a) Sales of goods and services:		
Koçtaş Yapı Marketleri Ticaret A.Ş.	25,599	18,046
Yapı ve Kredi Bankası A.Ş.	19,611	17,696
Zer Merkezi Hizmetler ve Ticaret A.Ş.	4,589	4,903
Arçelik-LG	4,170	5,387
Akpa Dayanıklı Tüketim LPG ve Akaryakıt Ürünleri Pazarlama A.Ş.	27	17,048
Other	11,887	5,207
	65,883	68,287

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 34 - RELATED PARTY DISCLOSURES (Continued)

	2017	2016
(b) Other sales:		
Koç Holding A.Ş. (*)	-	558,582

(*) Group's available for sale financial asset Koç Finansal Hizmetler A.Ş. ("KFS") shares corresponding to 3.98% of the share capital is sold to Koç Holding A.Ş. as of June 30, 2016 with the approval of Banking Regulation and Supervision Agency with total remuneration in cash, and profit on sale transaction was booked under income from investment activities (Note 29). The transaction value is determined by taking into account the valuation range indicated in the valuation report prepared by an independent consulting company and the recent market value of Yapı Kredi Bankası shares held by KFS as of the Board Decision date.

	2017	2016
(c) Purchases of goods and services:		
Zer Merkezi Hizmetler ve Ticaret A.Ş.	1,009,125	857,589
Arçelik-LG	635,656	478,872
Ram Dış Ticaret	203,507	156,037
Bilkom Bilişim Hizmetleri A.Ş. (1)	190,324	144,281
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	78,391	82,597
Setur Servis Turistik A.Ş. (1)	45,798	43,262
Koç Holding A.Ş. (**)	35,774	38,039
Ram Sigorta Aracılık Hizmetleri A.Ş. (*) (2)	27,188	26,449
Other	142,303	80,083
	2,368,066	1,907,209

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.

(*) The amount is composed of accrued premiums in the period ending December 31, 2017 in scope of policies signed between insurance companies with the intermediary role of Ram Sigorta Aracılık Hizmetleri A.Ş. which is operating as insurance agency.

(**) The amount contains finance, legal consultancy, planning, tax consultancy, senior management service costs invoiced by Parent Company "Koç Holding A.Ş." regarding their related services according to the concealed gain distribution described in Regulation No:11 Intra-Group Services of Transfer Pricing General Communiqué No:1.

(1) Koç Holding group companies

(2) Associates

(d) 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 year ended December 31, 2017 amounts to TRY 53,809 (December 31, 2016: TRY 61,152). TRY 2,034 (December 31, 2016: TRY 17,500) of the total compensation is redundancy payments made to the senior executives and the remaining amount is short-term benefits.

(e) Other transactions:

	2017	2016
Interest income:		
Yapı ve Kredi Bankası A.Ş. and its subsidiaries	18,134	11,894
Interest expense:		
Yapı ve Kredi Bankası A.Ş. and its subsidiaries	4,934	4,882

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 35 - 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.

The analysis of the Group's financial liabilities with respect to their maturities as of December 31, 2017 is as follows:

Total financial liabilities (non-derivative):	Carrying value	Contractual cash-flows	Up to 3 months	3 months-12 months	1 year-5 years	More than 5 years
Financial liabilities	7,376,103	8,331,021	1,775,048	1,775,945	2,846,929	1,933,099
Trade payables	3,575,568	3,613,103	3,432,579	180,524	-	-
Other payables, related parties	59,958	61,308	4,999	15,437	40,872	-
Other payables, third parties	242,655	242,655	228,738	13,917	-	-
	11,254,284	12,248,087	5,441,364	1,985,823	2,887,801	1,933,099

Derivative instruments	Carrying value	Contractual cash-flows	Up to 3 months	3 months-12 months	1 year-5 years	More than 5 years
Derivative cash inflows		3,929,507	2,084,238	181,861	271,577	1,391,831
Derivative cash outflows		(3,635,146)	(2,094,448)	(173,579)	(232,063)	(1,135,056)
Derivative instruments (net)	33,494	294,360	(10,210)	8,282	39,514	256,775

The analysis of the Group's financial liabilities with respect to their maturities as of December 31, 2016 is as follows:

Total financial liabilities (non-derivative):	Carrying value	Contractual cash-flows	Up to 3 months	3 months-12 months	1 year-5 years	More than 5 years
Financial liabilities	5,657,655	6,576,871	1,021,178	1,428,891	2,235,232	1,891,570
Trade payables	3,085,989	3,103,876	2,996,165	107,711	-	-
Other payables, related parties	72,914	81,067	5,015	15,006	61,046	-
Other payables, third parties	220,873	220,873	211,594	9,279	-	-
	9,037,431	9,982,687	4,233,952	1,560,887	2,296,278	1,891,570

Derivative instruments	Carrying value	Contractual cash-flows	Up to 3 months	3 months-12 months	1 year-5 years	More than 5 years
Derivative cash inflows		3,685,320	2,006,662	63,346	253,382	1,361,930
Derivative cash outflows		(2,949,817)	(1,720,255)	(48,056)	(192,484)	(989,022)
Derivative instruments (net)	179,301	735,503	286,407	15,290	60,898	372,908

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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

NOTE 35 - 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.

Average effective annual interest rates of statement of financial position accounts as of December 31, 2017 and 2016 are as follows:

December 31, 2017 (%)	TRY	EUR	USD	GBP	RON	RUB	CNY	ZAR	CZK	SEK	EGP	NOK	NAD	CHF	AUD	NZD	THB	BWP	VND	PKR	IDR	HKD
Current Assets																						
Cash and cash equivalents	13.50	0.02	1.79	0.42	0.91	7.50	1.06	5.25	(0.56)	(0.75)	11.25	0.19	5.00	(0.75)	0.00	0.00	0.65	1.00	1.00	4.27	4.59	0.25
Trade receivables	4.08	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Liabilities																						
Short-term bank borrowings	12.11	0.45	2.15	-	-	-	4.35	-	-	0.49	-	-	-	-	-	-	-	-	-	6.45	-	-
Trade payables	8.34	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-Current Liabilities																						
Long term bank borrowings	13.13	2.63	-	-	-	-	-	9.86	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long term bonds issued	-	4.00	5.10	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
December 31, 2016																						
Current Assets																						
Cash and cash equivalents	-	0.09	0.72	0.02	0.67	0.02	0.67	8.31	1.73	5.25	0.00	0.00	5.06	0.00	0.00	0.00	0.70	1.00	1.00	1.00	1.00	4.16
Trade receivables	4.08	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Liabilities																						
Short-term bank borrowings	9.29	0.85	-	-	-	-	-	-	4.35	-	-	-	-	-	-	-	-	-	-	-	-	6.28
Trade payables	8.34	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-Current Liabilities																						
Long term bank borrowings	11.75	2.62	-	-	-	-	-	8.90	-	9.86	-	-	-	-	-	-	-	-	-	-	-	-
Long term bonds issued	-	4.00	5.10	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 35 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Analysis of financial instruments of the Company which are sensitive to interest rate changes is as follows:

	2017	2016
Financial instruments with fixed interest rates		
Time deposits	587,579	708,381
Borrowings and bonds issued	6,710,740	4,744,460
Other	90,258	70,941
Financial instruments with variable interest rates		
Time deposits	1,439,513	1,066,820
Borrowings	575,105	842,254

At December 31, 2017, if interest rates of all foreign currency denominated financial assets and liabilities with variable interest rates has strengthened/weakened by 100 base point with all other variables held constant, income before taxes would have been TRY 8,644 (2016: TRY 2,246 lower/ higher) as a result of lower/higher interest income/expense arise from time deposits and borrowings with variable interest rates.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 35 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Details of credit and receivable risk as of December 31, 2017 and December 31, 2016 are as follows:

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	5,775,561	2,381,837	47,382
-Secured portion by guarantees, etc.	-	(4,665,645)	-	-
B. Financial assets with renegotiated conditions	-	195,148	-	-
- Secured portion by guarantees, etc.	-	(130,986)	-	-
C. Net book value of overdue but not impaired financial assets	-	500,799	-	-
- Secured portion by guarantees, etc.	-	(376,988)	-	-
D. 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)	-	-
December 31, 2016				
Maximum exposed credit risk as of reporting date ⁽¹⁾	6,504	5,313,249	2,314,158	183,686
Secured portion of the maximum credit risk by guarantees, etc. ⁽²⁾	-	(4,101,459)	-	-
A. Net book value of financial asset either are not due or not impaired	6,504	4,651,762	2,314,158	183,686
-Secured portion by guarantees, etc.	-	(3,558,228)	-	-
B. Financial assets with renegotiated conditions	-	113,761	-	-
- Secured portion by guarantees, etc.	-	(99,232)	-	-
C. Net book value of overdue but not impaired financial assets	-	498,492	-	-
- Secured portion by guarantees, etc.	-	(394,765)	-	-
D. Net book value of the impaired assets	-	49,234	-	-
- Overdue (Gross book value)	-	186,402	-	-
- Impairment (-)	-	(137,168)	-	-
- Secured portion of the net value by guarantees, etc.	-	(49,234)	-	-

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 35 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

a) Credit quality of financial assets which are not overdue and not impaired and receivables which are re-negotiated

	December 31, 2017	December 31, 2016
Group 1	11,628	12,859
Group 2	5,758,507	4,605,763
Group 3	214,183	153,405
	5,984,318	4,772,027

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

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

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

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

	December 31, 2017	December 31, 2016
0-1 month	292,347	262,254
1-3 months	100,657	166,955
3-12 months	79,743	37,057
1-5 years	28,052	32,226
	500,799	498,492

c) Geographical concentration of the trade receivables

	December 31, 2017	December 31, 2016
Turkey	3,417,146	2,941,721
Europe	1,782,084	1,329,242
Other	1,330,817	1,048,790
	6,530,047	5,319,753

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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

NOTE 35 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

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.

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 December 31, 2017, a portion of bank borrowings amounting to EUR 150,000,000 (before tax) was designated as a net investment hedging instrument (December 31, 2016: EUR 150,000,000).

Foreign currency position

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

	December 31, 2017	December 31, 2016
Assets	4,582,379	3,913,700
Liabilities	(5,639,134)	(4,962,169)
Net position of financial statement	(1,056,755)	(1,048,469)
Net position of derivative instruments	1,086,338	901,901
Foreign currency position (net)	29,583	(146,568)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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

NOTE 35 - 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 December 31, 2017 are as follows:

	EUR	USD	GBP	RUB	PLN	RON	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	-	-	-	-	-	-	-	-	-	-	-	-	-	2,549	597	-	308,667
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	20,658
Non-Current Liabilities	372,222	500,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,566,718
Financial liabilities	-	10,434	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	39,357
Other monetary liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	304,291	16,314	99,116	660,000	129,000	-	290,000	-	-	-	60,000	47,000	-	1,750	-	-	390,000	-	-	33,494
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017
(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 35 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

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

	EUR	USD	GBP	RUB	PLN	RON	CZK	NOK	SEK	ZAR	DKK	AUD	NZD	JPY	CAD	THB	CNY	CHF	PKR	TRY equivalent
December 31, 2016	17,269	49,031	3,194	9,098	(2,765)	48	2,599	4	(49)	11	-	(466)	-	-	884	(389)	(5,854)	(37)	385	274,963
Against TRY	-	238	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	901
Against EUR	81	144	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	909
Against RUB	2,488	10	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11,269
Against PLN	2,431	(31)	-	-	-	-	7	-	-	-	-	-	-	-	-	-	-	-	-	10,660
Against GBP	(8,793)	(641)	264	-	-	-	-	-	-	-	-	-	-	(727)	-	-	-	-	-	(40,429)
Against RON	(684)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,637)
Against CZK	453	-	-	-	-	-	-	-	(1,325)	-	4,696	-	-	-	-	-	-	-	-	4,284
Against NOK	1,699	-	-	-	-	-	-	(10)	-	-	-	-	-	-	-	-	-	-	-	7,667
Against SEK	270	107	11	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,679
Against CNY	(256)	(522)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,125)
Against ZAR	593	54	-	-	-	-	-	-	-	-	-	-	548	-	-	-	-	-	-	4,355
Against AUD	2	(26,074)	(794)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(102,374)
Against EGP	(3,418)	(27)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(15,536)
Against UAH	742	672	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,886
Against CHF	-	-	-	-	-	-	-	-	-	(13,431)	-	-	-	-	-	-	-	-	-	(4,120)
Against BWP	(61)	(90)	-	-	-	-	-	-	-	-	-	(661)	-	-	-	-	-	-	-	(2,556)
Against NZD	302	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,364
Against USD	4,096	(41)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,350
Against RSD	(392)	(971)	-	-	-	-	-	-	-	-	-	-	-	(320)	-	-	-	-	-	(5,444)
Against THB	-	(850)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,206)
Against MYR	-	(11,447)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(43,200)
Against VND	(747)	(16,148)	3	-	-	-	-	-	-	-	-	-	-	-	-	(195)	-	-	-	(90,277)
Against PKR	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	(684)	(50,989)	(37)	385	29,563

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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

NOTE 35 - 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, 2016 are as follows:

	EUR	USD	GBP	RUB	PLN	CZK	NOK	SEK	ZAR	DKK	AUD	NZD	JPY	CAD	CNY	CHF	TRY Equivalent
Current Assets																	
Trade receivables	358,701	165,603	101,309	561,181	107,145	263,809	-	31	297,795	60,298	33,167	399	-	1,780	177,304	-	2,795,401
Monetary financial assets	172,062	29,058	10	-	1	18	-	3,836	6	21,959	15	5	-	-	1	1	753,117
Other	30,210	66,901	78	-	-	-	-	-	-	-	11	11	1,099	-	30,056	618	365,182
Total Assets	560,973	261,562	101,397	561,181	107,146	263,827	-	3,867	297,801	82,257	33,193	404	1,099	1,780	207,361	619	3,913,700
Current Liabilities																	
Trade payables	204,657	202,719	1,269	-	-	-	240	334	9,156	1,186	6,637	148	73,754	-	61,427	643	1,533,887
Financial liabilities	27,372	8,115	-	-	-	-	-	-	-	-	-	-	-	-	-	-	130,105
Other monetary liabilities	781	4,863	-	-	-	-	-	-	-	-	-	-	-	-	-	-	20,011
Non-Current Liabilities																	
Financial liabilities	394,465	500,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,223,026
Other monetary liabilities	-	15,668	-	-	-	-	-	-	-	-	-	-	-	-	-	-	55,140
Total Liabilities	627,275	731,365	1,269	-	-	-	240	334	9,156	1,186	6,637	148	73,754	-	61,427	643	4,962,169
Net Position of Financial Statement	(66,302)	(469,803)	100,128	561,181	107,146	263,827	(240)	3,533	288,645	81,071	26,556	256	(72,655)	1,780	145,934	(24)	(1,048,469)
Off-balance sheet derivative assets (*)	355,677	472,391	-	-	5,000	-	-	-	-	-	5,800	-	-	-	-	-	3,000,886
Off-balance sheet derivative liabilities (*)	(303,812)	(14,465)	(107,903)	(590,000)	(118,000)	(255,000)	-	-	(297,000)	(78,000)	(32,000)	-	-	(1,800)	(170,000)	-	(2,098,985)
Net position of off-balance sheet items	51,865	457,926	(107,903)	(590,000)	(113,000)	(255,000)	-	-	(297,000)	(78,000)	(26,200)	-	-	(1,800)	(170,000)	-	901,901
Net Asset/(Liability) Position of Foreign Currency	(14,437)	(11,877)	(7,775)	(28,819)	(5,854)	8,827	(240)	3,533	(8,355)	3,071	356	256	(72,655)	(20)	(24,066)	(24)	(146,568)
Net Asset/(Liability) Position of Foreign Currency Monetary Items	(96,512)	(536,704)	100,050	561,181	107,146	263,827	(240)	3,533	288,645	81,071	26,545	256	(73,754)	1,780	115,878	(642)	(1,413,651)
Fair Value of Financial Instruments Used for Foreign Exchange Hedge	303,812	14,465	107,903	590,000	118,000	255,000	-	-	297,000	78,000	32,000	-	-	1,800	170,000	-	2,098,985
Hedged Amount of Foreign Currency Assets	205,677	472,391	-	-	5,000	-	-	-	-	-	5,800	-	-	-	-	-	2,444,401
Liabilities																	

(*) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017
(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 35 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

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

December 31, 2016	EUR	USD	GBP	RUB	PLN	CZK	NOK	SEK	ZAR	DKK	AUD	NZD	JPY	CAD	CNY	CHF	TRY equivalent
Against TRY	(6,935)	26,836	(7,208)	(28,819)	(5,854)	8,809	-	-	-	-	767	-	(69,912)	(20)	7,305	(24)	35,601
Against EUR	-	2,905	-	-	-	-	-	-	801	-	-	-	-	-	-	-	10,429
Against RUB	5,556	1,119	-	-	-	-	-	-	-	-	-	-	-	-	-	-	24,550
Against PLN	(345)	102	-	-	-	18	-	-	-	-	-	-	-	-	-	-	(919)
Against GBP	758	863	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,849
Against RON	1,583	(4,232)	179	-	-	-	-	-	-	-	-	-	(2,697)	-	-	-	(6,328)
Against CZK	755	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,801
Against NOK	3,446	(2)	-	-	-	-	-	3,533	-	2,880	-	-	-	-	-	-	15,582
Against SEK	(4,974)	(2)	-	-	-	-	(240)	-	-	191	-	-	-	-	-	-	(18,463)
Against CNY	1,025	2,021	42	-	-	-	-	-	-	-	-	-	-	-	-	-	11,096
Against ZAR	(2,595)	(1,526)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(15,004)
Against AUD	(57)	68	-	-	-	-	-	-	-	-	-	256	-	-	-	-	656
Against EGP	6	(29,839)	(794)	-	-	-	-	-	-	-	-	-	-	-	-	-	(108,416)
Against UAH	(3,061)	48	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(11,187)
Against CHF	(3,129)	672	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(9,243)
Against BWP	-	-	-	-	-	-	-	-	(9,156)	-	-	-	-	-	-	-	(2,352)
Against NZD	(32)	(12)	-	-	-	-	-	-	-	-	(411)	-	-	-	-	-	(1,204)
Against USD	250	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	927
Against RSD	(5,575)	(301)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(21,742)
Against THB	(649)	(953)	-	-	-	-	-	-	-	-	-	-	(46)	-	-	-	(5,763)
Against MYR	-	(1,068)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,759)
Against MYR	-	(3,072)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(10,811)
Against VND	(464)	(5,504)	6	-	-	-	-	-	-	-	-	-	-	-	(31,371)	-	(36,868)
Against PKR	(14,437)	(11,877)	(7,775)	(28,819)	(5,854)	8,827	(240)	3,533	(8,355)	3,071	356	256	(72,655)	(20)	(24,056)	(24)	(146,568)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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

NOTE 35 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

As of December 31, 2017, and December 31, 2016, 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.

December 31, 2017	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%
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 35 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

December 31, 2017	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%
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)
INR net asset/liability	-	-	1,799	(1,799)
Secured portion from INR risk	-	-	-	-
IDR Net effect	-	-	1,799	(1,799)
	2,958	(2,958)	490,562	(490,562)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 35 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

December 31, 2016	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%
USD net asset/liability	(165,333)	165,333	(163,093)	163,093
Secured portion from USD risk	161,153	(161,153)	161,153	(161,153)
USD Net effect	(4,180)	4,180	(1,940)	1,940
EUR net asset/liability	31,052	(31,052)	42,429	(42,429)
Secured portion from EUR risk	(36,408)	36,408	19,241	(19,241)
EUR Net effect	(5,356)	5,356	61,670	(61,670)
GBP net asset/liability	43,244	(43,244)	50,996	(50,996)
Secured portion from GBP risk	(46,602)	46,602	(46,602)	46,602
GBP Net effect	(3,358)	3,358	4,394	(4,394)
RUB net asset/liability	3,217	(3,217)	39,247	(39,247)
Secured portion from RUB risk	(3,382)	3,382	(3,382)	3,382
RUB Net effect	(165)	165	35,865	(35,865)
RON net asset/liability	-	-	80,689	(80,689)
Secured portion from RON risk	-	-	-	-
RON Net effect	-	-	80,689	(80,689)
PLN net asset/liability	9,027	(9,027)	15,336	(15,336)
Secured portion from PLN risk	(9,520)	9,520	(9,520)	9,520
PLN Net effect	(493)	493	5,816	(5,816)
CZK net asset/liability	3,632	(3,632)	6,726	(6,726)
Secured portion from CZK risk	(3,510)	3,510	(3,510)	3,510
CZK Net effect	122	(122)	3,216	(3,216)
NOK net asset/liability	(10)	10	407	(407)
Secured portion from NOK risk	-	-	-	-
NOK Net effect	(10)	10	407	(407)
SEK net asset/liability	136	(136)	4,264	(4,264)
Secured portion from SEK risk	-	-	-	-
SEK Net effect	136	(136)	4,264	(4,264)
NZD net asset/liability	63	(63)	63	(63)
Secured portion from NZD risk	-	-	-	-
NZD Net effect	63	(63)	63	(63)
ZAR net asset/liability	7,410	(7,410)	69,400	(69,400)
Secured portion from ZAR risk	(7,625)	7,625	(7,625)	7,625
ZAR Net effect	(215)	215	61,775	(61,775)
AUD net asset/liability	6,736	(6,736)	5,855	(5,855)
Secured portion from AUD risk	(6,646)	6,646	(6,646)	6,646
AUD Net effect	90	(90)	(791)	791
DKK net asset/liability	4,039	(4,039)	4,039	(4,039)
Secured portion from DKK risk	(3,886)	3,886	(3,886)	3,886
DKK Net effect	153	(153)	153	(153)
JPY net asset/liability	(218)	218	(218)	218
Secured portion from JPY risk	-	-	-	-
JPY Net effect	(218)	218	(218)	218
CAD net asset/liability	464	(464)	464	(464)
Secured portion from CAD risk	(469)	469	(469)	469
CAD Net effect	(5)	5	(5)	5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 35 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

December 31, 2016	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%
THB net asset/liability	-	-	26,214	(26,214)
Secured portion from THB risk	-	-	-	-
THB Net effect	-	-	26,214	(26,214)
EGP net asset/liability	-	-	(8,141)	8,141
Secured portion from EGP risk	-	-	-	-
EGP Net effect	-	-	(8,141)	8,141
UAH net asset/liability	-	-	607	(607)
Secured portion from UAH risk	-	-	-	-
UAH Net effect	-	-	607	(607)
CNY net asset/liability	7,351	(7,351)	15,468	(15,468)
Secured portion from CNY risk	(8,564)	8,564	(8,564)	8,564
CNY Net effect	(1,213)	1,213	6,904	(6,904)
CHF net asset/liability	(8)	8	26,697	(26,697)
Secured portion from CHF risk	-	-	-	-
CHF Net effect	(8)	8	26,697	(26,697)
BWP net asset/liability	-	-	89	(89)
Secured portion from BWP risk	-	-	-	-
BWP Net effect	-	-	89	(89)
RSD net asset/liability	-	-	1,573	(1,573)
Secured portion from RSD risk	-	-	-	-
RSD Net effect	-	-	1,573	(1,573)
MYR net asset/liability	-	-	11	(11)
Secured portion from MYR risk	-	-	-	-
MYR Net effect	-	-	11	(11)
VND net asset/liability	-	-	400	(400)
Secured portion from VND risk	-	-	-	-
VND Net effect	-	-	400	(400)
PKR net asset/liability	-	-	85,906	(85,906)
Secured portion from PKR risk	-	-	-	-
PKR Net effect	-	-	85,906	(85,906)
	(14,657)	14,657	395,618	(395,618)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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

NOTE 35 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Import and exports performed to / from Turkey for the year ended as of December 31, 2017 and 2016 are as follows:

	December 31, 2017		December 31, 2016	
	Original Amount	TRY equivalent	Original Amount	TRY equivalent
EUR	1,022,753,060	4,232,762	1,000,603,460	3,348,985
USD	300,429,459	1,093,807	329,703,181	994,189
GBP	268,704,759	1,263,008	272,859,689	1,108,634
Other		787,646		578,237
Total exports		7,377,223		6,030,045
EUR	384,280,363	1,563,160	358,994,291	1,198,790
USD	925,028,469	3,353,607	742,971,249	2,236,634
GBP	1,030,303	4,833	914,558	3,722
Other		5,359		13,706
Total imports		4,926,959		3,452,852

Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

The gearing ratios as of December 31, 2017 and 2016 are as follows:

	December 31, 2017	December 31, 2016
Total financial liabilities (Note 7)	7,376,103	5,657,655
Cash and cash equivalents (Note 5)	(2,581,964)	(2,441,871)
Net financial liabilities	4,794,139	3,215,784
Equity	6,915,077	6,004,577
Total capital invested	11,709,216	9,220,361
Gearing ratio	41%	35%

NOTE 36 - FINANCIAL INSTRUMENTS

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 36 - FINANCIAL INSTRUMENTS (Continued)

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.

As of December 31, 2017, the carrying value and the fair value of the long-term borrowings, including the short-term portions, are equal to TRY 6,341,686 (December 31, 2016: TRY 4,418,497) (Note 7), and TRY 6,338,517 (December 31, 2016: TRY 4,418,228) respectively. Fair value is calculated by discounting the cash out flows regarding due dates of financial liabilities 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 maximise 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 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 8)	-	47,382	-
Financial investments (Note 6)	2,473	-	-

Financial liabilities carried at fair value in statement of financial position

Derivative instruments (liabilities) (Note 8)	-	13,888	-
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Fair value hierarchy table as of December 31, 2016 is as follows:

Finansal durum tablosunda gerçeğe uygun değerden taşınan finansal varlıklar	Level 1	Level 2	Level 3
Derivative instruments (assets) (Note 8)	-	183,686	-
Financial investments (Note 6)	2,656	-	-

Financial liabilities carried at fair value in statement of financial position

Derivative instruments (liabilities) (Note 8)	-	4,385	-
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 (Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated.)

NOTE 37 - 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:

	1 January - December 31, 2017	1 January - December 31 2016
Adjustments for provisions:		
Accrual for customer premiums	138,614	44,976
Warranty provision	81,239	62,829
Provision for assembly and transportation cost	43,135	21,031
Provision for employment termination benefits	29,691	25,453
Accrual for bonuses and premiums	5,606	3,862
Return provisions	3,146	(2,426)
Provision for vacation pay liability	3,347	5,576
Provision for legal claims	95	513
	304,873	161,814
	1 January - December 31, 2017	1 January - December 31 2016
Adjustments for impairment loss:		
Provision for doubtful receivables	28,853	27,065
Provision for impairment on inventories	13,142	22,450
	41,995	49,515

NOTE 38 – EVENTS AFTER BALANCE SHEET DATE

The negotiation process of the Collective Labour Agreement between Turkish Metal Industrialists Union (MESS) of which our Company is a member and the Turkish Metal Union is signed on January 30, 2018, effective period of the agreement is between 01 September 2017 – 31 August 2019.

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General Information

Reporting Period	:	01.01.2017 - 31.12.2017
Trade Name	:	Arçelik A.Ş.
Trade Registry and Number	:	İstanbul Ticaret Sicil Müdürlüğü. No: 54957
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