TAT GIDA SANAYİ A.Ş.

CONVENIENCE TRANSLATION INTO ENGLISH OF
FINANCIAL STATEMENTS AS AT AND
FOR THE YEAR ENDED 31 DECEMBER 2017
(ORIGINALLY ISSUED IN TURKISH)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Tat Gıda Sanayi Anonim Şirketi

A) Audit of the Financial Statements

Opinion

We have audited the financial statements of Tat Gıda Sanayi Anonim Şirketi ("the Company"), which comprise the statement of financial position as at 31 December 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

Revenue recognition

Refer to Note 2.5 to the financial statements for summary of significant accounting policies and significant accounting assessments, estimates and assumptions for revenue recognition.

The key audit matter	**How the matter was addressed in our audit**
The Company's revenue is primarily generated from product sales to related parties. These sales comprises 88% of the total revenue. As explained in Note 2.5, revenue is recognized over the fair value of the considered receivable which is taken on the accrual basis of the financial statement when the delivery is made, the amount of income can be reliably determined and it is probable that the Company will obtain economic benefits related to these transactions. The accounting for the revenue for the accounting period in which the product is sold depends on an appropriate assessment of whether it relates to the product's sales contract. As the commercial arrangements can be complex, significant judgment is applied in selecting the accounting basis in each case. We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Company and involves significant management judgment	We have performed the following audit procedures to be responsive to this area: The risk of "material misstatement" in the recognition of revenue in the financial statements is considered as a serious risk. • Assessing the appropriateness of the revenue recognition policy of the Company and inspection of the customer sales agreements; • Testing of controls, assisted by our own IT specialists, including, among others, those over: input of individual advertising campaigns' terms and pricing; comparison of those terms and pricing data against the related overarching contracts with customers; and linkage to viewer data, • Detailed analysis of revenue and the timing of its recognition based on expectations derived from our industry knowledge and external market data, following up variances from our expectations, • Substantive testing of sales to related parties, which comprise a significant portion of the company's sales, have been confirmed.

Provision for the impairment of inventories

Refer to Note 2.5 to the financial statements for summary of significant accounting policies and significant accounting assessments, estimates and assumptions for Provision for the impairment of inventories.

The key audit matter	**How the matter was addressed in our audit**
The Company's inventories, amounting to TL 231.676.801 as of 31 December 2017, carry a risk of diminution in value due to microbial or non-microbial deterioration and improper storage. In addition, determining the provision for such reasons in value involves judgments and estimates. These judgments and estimates include evaluation of the slow moving inventories due to various reasons 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.	• Procedures performed to ensure the adequacy of the provision for the diminution of the value of inventories are as follows: • Understanding and evaluating the reasonableness of the provisioning policy and the assessment of its compliance, • Inquiry with the Company management about the risk of diminution in value, • 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.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Responsibilities of auditors in an audit are as follows:

Our objectives are 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with standards on auditing issued by the CMB and Standards on Auditing issued by POA. Misstatements can arise from fraud or error. They 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 financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company'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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

B) Other Legal and Regulatory Requirements

1) Pursuant to the fourth paragraph of Article 398 of Turkish Commercial Code ("TCC") no. 6102; Auditors' Report on System and Committee of Early Identification of Risks is presented to the Board of Directors of the Company on 8 February 2018.

2) Pursuant to the fourth paragraph of Article 402 of the TCC; no significant matter has come to our attention that causes us to believe that for the period 1 January - 31 December 2017, the Company's bookkeeping activities and financial statements are not in compliance with TCC and provisions of the Company's articles of association in relation to financial reporting.

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

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

Hatice Nesrin Tuncer, SMMM
Partner
13 February 2018
Istanbul, Turkey

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TAT GIDA SANAYİ A.Ş.

BALANCE SHEETS AS OF 31 DECEMBER 2017

(Amounts are expressed in Turkish Lira (TL) unless otherwise indicated)

ASSETS	Notes	Audited 31 December 2017	Audited 31 December 2016
Current Assets		**563.452.240**	**500.086.681**
Cash and cash equivalents	4	13.025.751	43.117.818
Trade receivables	7	281.425.149	230.378.112
-Trade receivables from related parties	25	*244.725.130*	*161.030.182*
-Trade receivables from third parties	7	*36.700.019*	*69.347.930*
Other receivables		165.847	1.492.423
-Other receivables from third parties	8	*165.847*	*1.492.423*
Derivatives		453.194	--
Inventories	9	231.676.801	202.755.689
Prepaid expenses	10	2.760.369	706.813
Other current assets	17	33.945.129	21.635.826
Non-Current Assets		**222.537.003**	**191.380.111**
Other receivables		88.233	90.690
-Other receivables from third parties	8	*88.233*	*90.690*
Financial investments	5	3.177.374	2.877.374
Property, plant and equipment	11	185.506.697	153.518.066
Intangible assets	12	1.241.169	841.586
Prepaid expenses	10	1.933.563	1.751.436
Deferred tax assets	24	151.381	2.488.034
Other non-current assets	17	30.438.586	29.812.925
TOTAL ASSETS		**785.989.243**	**691.466.792**

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

TAT GIDA SANAYİ A.Ş.

BALANCE SHEETS AS OF 31 DECEMBER 2017 (CONTINUED)

(Amounts are expressed in Turkish Lira (TL) unless otherwise indicated)

LIABILITIES	Notes	Audited 31 December 2017	Audited 31 December 2016
Short Term Liabilities		**270.876.344**	**153.333.404**
Short-term financial borrowings	6	45.140.855	3.036.428
Short-term portion of long-term borrowings	6	56.799.986	6.809.594
Trade payables		141.140.183	118.083.935
- Trade payables to related parties	25	*18.958.312*	*23.077.774*
- Trade payables to third parties	7	*122.181.871*	*95.006.161*
Employee benefit obligations	16	5.981.742	5.826.823
Other payables		11.447.176	8.075.405
- Other payables from related parties	25	*5.565.583*	*5.605.300*
- Other payables from third parties	8	*5.881.593*	*2.470.105*
Deferred income	10	5.515.635	4.706.985
Current tax liabilities		130.838	--
Short-term provisions		4.719.929	6.794.234
- Short-term provisions for employment benefits	16	*900.000*	*900.000*
- Other short-term provisions	14	*3.819.929*	*5.894.234*
Long Term Liabilities		**22.137.264**	**77.173.021**
Long-term financial borrowings	6	7.692.308	63.846.154
Long-term provisions		14.444.956	13.326.867
- Long-term provisions for employment benefits	16	*14.444.956*	*13.326.867*
EQUITY		**492.975.635**	**460.960.367**
Equity attributable to equity holders of the parent company		**492.975.635**	**460.960.367**
Share capital	18	136.000.000	136.000.000
Inflation adjustment to share capital	18	21.601.088	21.601.088
Share premiums		10.107.809	10.107.809
Other comprehensive income or expenses that may be reclassified subsequently to profit or loss		1.594.091	1.294.091
- Financial assets revaluation reserve		*1.594.091*	*1.294.091*
Other comprehensive income or expenses that will not be reclassified subsequently to profit or loss		(279.830)	(812.136)
-Actuarial gains / (losses) in defined benefit plan		*(279.830)*	*(812.136)*
Restricted reserves	18	89.949.523	84.592.445
Prior years' profit		172.819.429	143.476.510
Profit for the period		61.183.525	64.700.560
TOTAL LIABILITIES		**785.989.243**	**691.466.792**

(Convenience Translation into English of Financial Statements Originally Issued in Turkish)

TAT GIDA SANAYİ A.Ş.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

		Audited	**Audited**
		1 January-31 December 2017	**1 January-31 December 2016**
Profit or loss	**Notes**		
Continuing operations			
Sales	19	1.074.034.710	981.120.246
Cost of sales (-)	19	(835.401.871)	(750.790.672)
Gross profit		**238.632.839**	**230.329.574**
Marketing expenses (-)	20	(140.086.877)	(124.194.750)
General administrative expenses (-)	20	(47.521.854)	(43.329.583)
Research and development expenses (-)		(903.188)	(28.248)
Other income from operating activities	21	36.894.456	13.650.178
Other expenses from operating activities (-)	21	(16.361.322)	(6.224.265)
Operating profit		**70.654.054**	**70.202.906**
Income from investing activities	22	1.178.830	1.217.885
Expenses from investing activities (-)	22	(120.364)	(33.574)
Operating profit before finance expense		**71.712.520**	**71.387.217**
Finance income	23	7.829.980	6.502.671
Finance expense (-)	23	(14.817.057)	(8.551.313)
Finance expense, net		**(6.987.077)**	**(2.048.642)**
Profit before tax		**64.725.443**	**69.338.575**
Tax expense		**(3.541.918)**	**(4.638.015)**
Current tax expense	24	(1.338.341)	(1.518.132)
Deferred tax expense	24	(2.203.577)	(3.119.883)
Profit for the period		**61.183.525**	**64.700.560**
Allocation of profit for the period			
Owners of the company		61.183.525	64.700.560
Net profit for the period		**61.183.525**	**64.700.560**
Earnings per share		**0,45**	**0,48**
Other comprehensive income:			
Gain in revaluation reserve		300.000	(675.000)
Actuarial gain on employee benefits		532.306	(1.329.366)
Total other comprehensive income		**832.306**	**(2.004.366)**
Total comprehensive income		**62.015.831**	**62.696.194**
Total comprehensive income attributable to			
Owners of the company		62.015.831	62.696.194
Total comprehensive income		**62.015.831**	**62.696.194**

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

(Convenience Translation into English of Financial Statements Originally Issued in Turkish)

TAT GIDA SANAYİ A.Ş.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

				Items that may be reclassified subsequently to profit or loss	Items that will not be reclassified subsequently to profit or loss				
	Share capital	**Inflation adjustments to share capital**	**Share premium**	**Financial assets revaluation reserve**	**Actuarial gain/losses in defined benefit plans**	**Restricted reserves**	**Net profit for the period**	**Prior year's profit**	**Total equity**
Balance at 1 January 2016	**136.000.000**	**21.601.088**	**10.107.809**	**1.969.091**	**517.230**	**80.729.934**	**67.318.191**	**100.030.348**	**418.273.691**
Transfers	--	--	--	--	--	3.862.511	(67.318.191)	63.455.680	--
Dividend payment	--	--	--	--	--	--	--	(20.009.518)	(20.009.518)
Total comprehensive income	--	--	--	(675.000)	(1.329.366)	--	64.700.560	--	62.696.194
Balance at 31 December 2016	**136.000.000**	**21.601.088**	**10.107.809**	**1.294.091**	**(812.136)**	**84.592.445**	**64.700.560**	**143.476.510**	**460.960.367**
Balance at 1 January 2017	**136.000.000**	**21.601.088**	**10.107.809**	**1.294.091**	**(812.136)**	**84.592.445**	**64.700.560**	**143.476.510**	**460.960.367**
Transfers	--	--	--	--	--	5.357.078	(64.700.560)	59.343.482	--
Dividend payment	--	--	--	--	--	--	--	(30.000.563)	(30.000.563)
Total comprehensive income	--	--	--	300.000	532.306	--	61.183.525	--	62.015.831
Balance at 31 December 2017	**136.000.000**	**21.601.088**	**10.107.809**	**1.594.091**	**(279.830)**	**89.949.523**	**61.183.525**	**172.819.429**	**492.975.635**

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

(Convenience Translation into English of Financial Statements Originally Issued in Turkish)

TAT GIDA SANAYİ A.Ş.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

	Notes	Audited 1 January- 31 December 2017	Audited 1 January- 31 December 2016
Profit for the period		61.183.525	64.700.560
Adjustments to reconcile profit for the period:			
Adjustments related to depreciation and amortization expenses	11-12	12.857.436	11.433.799
Adjustments related to provision for employee termination benefit	16	7.661.943	4.477.501
Provision for doubtful receivables	7	166.604	63.922
Gain on sales of property, plant and equipment	22	8.055	(50.173)
Adjustments related to other provisions	14	(2.074.305)	(123.044)
Adjustments related to income accruals	7	(1.910.468)	96.237
Adjustments related to increase in fair value of derivatives		453.194	--
Unrealized foreign exchange loss		1.263.500	--
Discount expense		197.856	450.617
Discount income		(1.248.700)	(2.318.440)
Interest income	23	(1.822.966)	(3.103.746)
Dividend income		(937.378)	(918.567)
Interest expense	23	9.540.713	8.169.128
Changes in working capital		**85.339.009**	**82.877.794**
Changes in trade receivables and other receivables		34.814.419	(28.992.095)
Changes in due from related parties		(82.446.248)	37.113.894
Changes in inventories		(28.921.112)	(10.075.431)
Changes in prepaid expenses		(2.235.683)	1.031.441
Changes in other current and non-current assets		(12.934.964)	1.884.874
Changes in trade payables		26.977.854	2.995.177
Changes due to related parties		(4.159.179)	5.397.405
Changes in deferred income		808.650	(1.818.583)
Changes in employee benefit payables		154.919	2.148.293
Changes in other current liabilities		3.411.488	(2.166.251)
Cash flows from operating activities		**20.809.153**	**90.396.518**
Employee termination benefits paid	16	(5.878.471)	(3.586.646)
Taxes refund / (paid)		2.334.416	6.168.428
Net cash flows from operating activities		**17.265.097**	**92.978.300**
Investing activities:			
Property, plant and equipment and intangible asset acquisitions	11-12	(45.257.209)	(28.772.346)
Cash generated from sale of property, plant and equipment and intangible assets		3.504	1.971.799
Dividend received		937.378	918.567
Interest received		1.822.966	3.103.746
Net cash (used in)/from investing activities		**(42.493.361)**	**(22.778.234)**
Financing activities:			
Cash inflows due to loan received		134.437.733	77.732.387
Cash outflows due to loan received		(98.832.765)	(93.788.446)
Cash provided from bond issue		--	50.000.000
Cash paid for bond issue	6	--	(50.000.000)
Dividend paid		(30.000.563)	(20.009.518)
Interest paid		(10.468.208)	(8.861.305)
Net cash used in financing activities		**(4.863.803)**	**(44.926.882)**
Net change in cash and cash equivalents		**(30.092.067)**	**25.273.184**
Cash and cash equivalents at the beginning of the period	**4**	**43.117.818**	**17.844.634**
Cash and cash equivalents at the end of the period	**4**	**13.025.751**	**43.117.818**

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

NOTE 1 – ORGANISATION AND OPERATIONS OF THE COMPANY

Tat Gıda Sanayi A.Ş. ("Tat Gıda" or "the Company") was established in 1967 with the name Tat Konserve Sanayii A.Ş., the name change of the Company was decided at the extraordinary assembly meeting on 30 October 2013 and registered on 15 November 2013. The Company is engaged in production, distribution, marketing, domestic and foreign trade and brokerage of semi- finished goods and finished goods of such products; merchandise goods, food, beverage, juice, agricultural and animal products, frozen foods, dried goods, including pulverized goods and raw and primitive form of materials recipient and additives, sweet and sugar free juice and canned goods. The Company is registered in Turkey and is operating in accordance with the Turkish Commercial Code.

The Company had 1.056 employees at 31 December 2017 (31 December 2016: 1.115).

The average number of employee of company is 1.243 as of 31 December 2017 (31 December 2016: 1.305)

The domestic marketing and sales activities of the Company are performed by Düzey Tüketim Malları Sanayi Pazarlama A.Ş. ("Düzey"), a Koç Group company.

Koç Holding A.Ş. is the main shareholder and the ultimate owner of the Company.

The shares of the Company are quoted to Istanbul Stock Exchange Market since 1993.

The registered office address of the Company is as follows:

Taşdelen Mah. Sırrı Çelik Bulvarı No: 7
34788 Çekmeköy / İstanbul / Turkey

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Statement of Compliance to TAS

The Company maintains its books of account and prepares its statutory financial statements in accordance with accounting principles in the Turkish Commercial Code ("TCC") and tax legislation.

The considered financial statements and notes have been represented in accordance with the communique numbered II, 14.1 "Communique on the Principles of Financial Reporting in Capital Markets" ("the Communique") announced by Capital Market Boards ("CMB") on 13 June 2013 which is published on official Gazette numbered 28676. In accordance with article 5th of communique, Turkish Accounting Standards/Turkish Financial Reporting standards and interpretations ("TAS/TFRS") are applied.

Additionally, financial statements and footnotes have prepared in accordance with formats issued by CMB on 7 June 2013.

Approval of financial statements:

Financial statements are authorized for issue by Board of Directors meeting on 13 February 2018. The General Assembly has authority to amend these financial statements.

Principles of measurement

Financial statements have been prepared on the historical cost basis except for the available for sale financial asset that is measured at fair value. Fair value of considerations paid for the assets is considered in determining the historical cost.

Reporting and Functional Currency

The financial statements are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the functional and presentation currency of the Company is TL.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.1 Statement of Compliance to TAS (Continued)

Correction of financial statements of hyperinflation periods

With the decision taken on 17 March 2005, the application of inflation accounting is no longer required for companies operating in Turkey and preparing their financial statements in accordance with Turkish accounting standards. Accordingly, TMS 29 is not applied starting from 1 January 2005.

2.2 Financial Statements of Comparative Information and Restatement of Prior Period

In order to allow the determination of the financial position and performance of the Company's financial statements have been prepared comparatively with the prior period. In order to comply with the presentation of the financial statements of the current period necessary, comparative figures are reclassified, and significant differences are explained.

2.3 New and Revised Financial Reporting Standards

The following new and revised standards have been applied in the current year and have affected the amounts reported and disclosures in these financial statements. Details of other new and revised standards and interpretations applied in these financial statements that have had no material impact on the financial statements are also set out below.

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 Company will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

TFRS 15 Revenue from Contracts with Customers

As issued in September 2016 by POA, the new standard replaces existing TFRS guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which companies to be entitled, rather than fair value and new guidance have been introduced on separating performance obligations for goods and services in a contract and recognition of revenue over time. TFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

TFRS 9 Financial Instruments (2017 version)

TFRS 9 *Financial Instruments*, has been published by POA in January 2017, replaces the existing guidance in TAS 39 *Financial Instruments: Recognition and Measurement*. It also carries forward the guidance on recognition, classification, measurement and derecogniton of financial instruments from TAS 39 to TFRS 9. The last version of TFRS 9 includes a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements and also includes guidance issued in previous versions of TFRS 9. The Standard is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

TFRS Interpretation 22 – Foreign Currency Transactions and Advance Consideration

TFRS Interpretation 22 "*Foreign Currency Transactions and Advance Consideration*" has been published by POA in December 2017 to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. This Interpretation is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Company is assessing the potential impact on its financial statements resulting from the application of TFRS Interpretation 22.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 New and Revised International Financial Reporting Standards (Continued)

Amendments to TFRS 2 – Classification and Measurement of Share-based Payment Transactions

POA has issued amendments to TFRS 2 Share-Based Payment in December 2017to improving consistency and resolve some long-standing ambiguities in share-based payment accounting. The amendments cover three accounting areas: i) measurement of cash-settled share-based payments, ii) classification of share-based payments settled net of tax withholdings; and iii) accounting for modification of a share-based payment from cash-settled to equity-settled. Also, same approach has been adopted for the measurement of cash-settled share-based payments as equity-settled share-based payments. If certain conditions are met, share-based payments settled net of tax withholdings are accounted for as equity-settled share-based payments. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted. The Company is assessing the potential impact on its financial statements resulting from the application of the amendments to TFRS 2.

TAS 40 – Transfers of Investment Property

Amendments to IAS 40 - Transfers of Investment Property issued by POA in December 2017 have been made to clarify uncertainty about that provide evidence of transfer of /from investment property to other asset groups. A change in management's intentions for the use of property does not provide evidence of a change in intended use. Therefore, when an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized (eliminated from the statement of financial position) and does not reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Company does not expect that application of these amendments to TAS 40 will have significant impact on its financial statements.

Improvements to TFRSs

POA has issued Annual Improvements to TFRSs - 2014–2016 Cycle for applicable standards. The amendments are effective as of 1 January 2018. Earlier application is permitted. The Company does not expect that application of these improvements to TFRSs will have significant impact on its financial statements.

Annual Improvements to TFRSs 2014-2016 Cycle

TFRS 1 "First Time Adoption of International Financial Reporting Standards"

TFRS 1 is amended to removing of the outdated short-term exemptions for first-time adopters within the context of 'Annual Improvements to TFRSs 2012-2014 Cycle' related to disclosures for financial instruments, employee benefits and consolidation of investment entities.

TAS 28 "Investments in Associates and Joint Ventures"

The amendment enable when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with TFRS 9.

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

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

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 New and Revised International Financial Reporting Standards (Continued)

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

IFRS 16 Leases

On 13 January 2016, IASB issued the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently changes to IAS 40 *Investment Properties*. IFRS 16 *Leases* eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15 Revenue from Contracts with Customers. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

IFRIC 23 –Uncertainty Over Income Tax Treatments

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Interpretation is effective from 1 January 2019 with earlier application is permitted. The Company is assessing the potential impact on its financial statements resulting from the application of IFRIC 23.

Annual Improvements to IFRSs 2015-2017 Cycle
Improvements to IFRSs

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

IFRS 3 Business Combinations and *IFRS 11 Joint Arrangements*

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

IAS 12 Income Taxes

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

IAS 23 Borrowing Costs

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

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 New and Revised International Financial Reporting Standards (Continued)

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

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

On December 2017, POA has issued amendments to TAS 28 to clarify that entities also apply TFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. An entity applies IFRS 9 to such long-term interests before it applies related paragraphs of TAS 28. In applying TFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying TAS 28. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Company is assessing the potential impact on its financial statements resulting from the application of the amendments to TAS 28.

Amendments to IFRS 9 - Prepayment features with negative compensation

On December2017, POA has issued amendments to TFRS 9 to clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of TFRS 9. Under TFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include 'reasonable additional compensation' for early termination of the contract. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Company is assessing the potential impact on its financial statements resulting from the application of the amendments to TFRS 9.

IFRS 17 –Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly international standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 17.

2.4 Restatement and Errors in the Accounting Policies and Estimates

Material changes in accounting policies or material errors are corrected, retrospectively by restating the prior period financial statements. The effect of changes in accounting estimates affecting current and future periods is recognized in the current and future periods. There is no significant change in accounting policies and estimations of the Company in the current period.

2.5 Summary of Significant Accounting Policies

The accounting policies considered during the preparation of the financial statements are as follows:

Cash and cash equivalents

Cash and cash equivalents are carried at cost in the balance sheet. Cash and cash equivalents comprise cash in hand, bank deposits and highly liquid investments, whose maturity at the time of purchase is less than three months (Note 4).

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Related parties

For the purpose of these financial statements, Koç Holding A.Ş., shareholders, key management personnel and Board members, in each case together with their families and companies, associates and joint ventures controlled by or affiliated with them are considered and referred to as related parties (Note 25).

Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale. When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in statement of income/(loss) in the period the write-down or loss occurred. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the original write-down (Note 9).

The cost of inventories is based on weighted average method and includes expenditure incurred in acquiring inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, costs include an appropriate share of production overheads based on normal operating capacity.

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation in the financial statements. Depreciation is provided on property, plant and equipment on a straight-line basis.

Tangible assets acquired before 1 January 2005 are measured at cost of restated for the effects of inflation as at 31 December 2004 less accumulated depreciation and impairment losses.

Depreciation is not calculated for land due to indefinite useful life estimation.

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, which is the higher of asset net selling price or value in use.

Gains or losses on disposals of property, plant and equipment are determined by comparing proceeds with carrying amounts and are included in operating profit.

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

Intangible assets

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (4-8 years).

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Corporate income taxes

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

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

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

These types of investments and interest associated with the taxable temporary differences arising from the deferred tax asset in the near future taxable sufficient to obtain profit in the above mentioned differences can be utilized is probable and the future of the differences on the disappearance is probable that the conditions are calculated.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Financial instruments

Financial assets

Investments are recognized and derecognized on a trade date where the purchase or sale of an investment under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and receivables'.

The effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Held-to-maturity investments

Investments in debt securities with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield basis.

Available-for-sale financial assets

Investments other than (a) held-to-maturity debt securities or (b) held for trading securities are classified as available-for-sale. Available-for-sale financial assets are measured at subsequent reporting dates at fair value except available-for sale investments that do not have quoted prices in active markets and whose fair values cannot be reliably measured are stated at cost and restated to the equivalent purchasing power.

Gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period. Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss.

Impairment losses recognized in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Financial instruments (Continued)

Trade receivables

Trade receivables that are created by the Company by way of providing goods or services directly to a debtor are carried at amortized cost. Trade receivables, net of unearned financial income, are measured at amortized cost, using the effective interest rate method, less the unearned financial income. Short duration receivables with no stated interest rate are measured at the original invoice amount unless the effect of imputing interest is significant.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available-for-sale equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Financial liabilities

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Financial instruments (Continued)

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Share Capital

The ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Company. Control occurs when the investor 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. In assessing control, the Company takes into consideration potential voting rights that currently are exercisable.

The Company measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus

- The recognized amount of any non-controlling interests in the acquire; plus

- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less

- The net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognized in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Provision for employee termination benefits

Employment termination benefits, represents the present value of the future probable obligation of the Company arising from the retirement of the employees calculated in accordance with the Turkish Labor Law, employment termination without due cause, call up for military service and death of the employees after at least one year work (Note 16).

Classified assets held for sale and discontinued operations

A disposal group is a separate part of the Company in terms of its operations and cash flows, which is classified as held for sale or disposed of by the Company. A disposal group can be a separate operational or geographical segment, a part of a separate plan for the purpose of sale or disposal, or a subsidiary acquired for purpose of sale. The Company measures a non-current asset or a disposal group classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

Provisions, 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 Company are not included in financial tables and treated as contingent assets or liabilities.

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

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

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

Revenue

Revenue is recognized on accrual basis at the fair value of the amount obtained or to be obtained based on the assumptions that delivery is realized, the income can be reliably determined and the inflow of the economic benefits related with the transaction to the Company is probable. Net sales are calculated after the sales returns and sales discounts are deducted.

Sale of the products

Revenues from sale of tomato paste and canned foods, milk and dairy products, meat and meat products and pasta and mealy products are recognized when all the following conditions are satisfied:

- The Company transfers the significant risks and rewards of ownership of the goods to the buyer,
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold,
- The amount of revenue can be measured reliably,
- It is probable that the economic benefits associated with the transaction will flow to the entity,
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend and interest income

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Finance income and costs

Finance income is comprised of interest income and foreign exchange gains. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs are comprised of interest expense on borrowings, transaction costs, coupon payments of bond, impairment losses recognized on financial assets (except for trade receivables). Borrowing costs that cannot be matched with acquisition, construction or production of an asset are recognized in profit or loss by using effective interest rate.

Discount, late payment and foreign exchange gains and losses arising from trading transactions are recognized in other operating income and expense.

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at the exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated to the functional currency at the exchange rate ruling at the date. Foreign currency differences arising on translation of foreign currency transactions are recognized in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

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

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

Earnings/ (loss) per share

The basic earnings/ (loss) per share is calculated by dividing the profit/ (loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Summary of Significant Accounting Policies (Continued)

Statement of Cash Flows

In statement of cash flow, cash flows are classified according to operating, investment and finance activities.

Cash flows from operating activities reflect cash flows generated from the sales of goods and commodities of the Company.

Cash flows from investment activities express cash used in investment activities (direct investments and financial investments) and cash flows generated from investment activities of the Company. Cash flows relating to finance activities express sources of financial activities and payment schedules of the Company.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.6 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Useful lives of property, plant and equipment

The depreciation on property, plant and equipment is provided using the useful lives discussed in Note 12 to the financial statements.

(b) Deferred tax assets

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Currently, there are deferred tax assets resulting from operating loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized. The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. The Company has recognized provision for a certain portion of loss carry-forwards of Moova, the subsidiary purchased in 2014 and merged with in the current year, in accordance with its profitability projections.

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 3 – SEGMENT REPORTING

Primary reporting format - business segment

The products of the Company have different risks and returns, then the below segments have been accepted by the Company. The Company have identified relevant operating segments based on internal reports about the components of the Company that are regularly reviewed by the chief operating decision maker of the Company.

- Tomato paste and canned foods
- Milk and dairy products
- Pasta and mealy products

The Company also evaluated disclosure of geographical distribution of revenues for the period in addition to industrial segments. However, the Company's concluded that there is no geographical reporting segments since the big chain groceries and Düzey is the main customer of the Company. The Company Management evaluates financial results and performance based of TAS financial statements. Therefore, TAS financial statements are the basis of segmental reporting.

Domestic selling and marketing activities are operated by the Düzey which is a member of Koç Group. Sales amount to the Düzey is TL 942.968.424 (31 December 2016: TL 873.593.810).

a) Revenue segmental analysis for the year ended 1 January - 31 December 2017 and 2016

	2017	**2016**
Tomato paste and canned products	373.939.588	379.196.939
Milk and dairy products	635.311.535	544.060.956
Pasta and bakery products	64.783.587	57.862.351
	1.074.034.710	**981.120.246**

b) Segment assets

The assets of the entity that are directly employed in the operating activities of the segment can be allocated to the segment on a reasonable basis are defined as segment assets.

Sales network and property, plant and equipment and intangibles in terms of the organizational structure of Tat Gıda Sanayi A.Ş. is described as segment assets.

As at 31 December, the recorded amounts of the segment assets according to industrial segments are as follows:

	2017	**2016**
Tomato paste and canned products	67.438.722	51.720.519
Milk and dairy products	102.720.548	93.461.001
Pasta and bakery products	6.497.576	6.181.779
Assets that cannot be allocated to segments	10.091.020	2.996.353
	186.747.866	**154.359.652**

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 3 – SEGMENT REPORTING (Continued)

c) Segment liabilities

Described as liabilities that result from the operating activities of a segment and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

In the general framework of the organizational structure of the Company and its internal financial reporting system, trade and other payables are analyzed in the basis of industrial segments. As a result, reporting of segment liabilities are not required.

d) Depreciation and amortization and capital expenditures

Depreciation and amortization of the industrial segment assets as at 31 December, are as follows:

Depreciation and amortization	**2017**	**2016**
Tomato paste and canned products	4.725.292	4.219.718
Milk and dairy products	7.046.050	6.182.355
Pasta and bakery products	625.939	591.974
Depreciation and amortization charges that cannot be allocated to segments	460.155	439.752
	12.857.436	**11.433.799**

As at 31 December, investment expenditures for the industrial segment assets are as follows:

Investment expenditures	**2017**	**2016**
Tomato paste and canned products	21.550.177	9.630.908
Milk and dairy products	16.909.952	15.149.438
Pasta and bakery products	941.736	865.047
Investment expenditures that cannot be allocated to segments	5.855.344	3.126.953
	45.257.209	**28.772.346**

NOTE 4 – CASH AND CASH EQUIVALENTS

The details of cash and cash equivalents as at 31 December are as follows:

	2017	**2016**
Banks	13.025.751	43.117.708
-Time deposit – TL	*780.000*	*22.175.720*
-Demand deposit – TL	*11.684*	*2.851*
-Time deposit - foreign currency	*11.949.742*	*20.409.056*
-Demand deposit - foreign currency	*284.325*	*530.081*
Others	--	110
	13.025.751	**43.117.818**

Maturity of time deposit is 2 January 2018, 15 January 2018 and 26 January 2018 and the interest rates are 13,2% for TL, 4 % for USD. (31 December 2016: Maturity of time deposits are 2 January 2017 and the interest rates are 9,72% for TL and 1,58% for USD).

There is no blockage or restriction on the use of cash and cash equivalents as at 31 December 2017 (31 December 2016: None).

Nature and level of risks associated with Cash and Cash Equivalents have been explained in Note 26.

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 5 – FINANCIAL ASSETS

The details of financial assets as at 31 December are as follows:

	%	2017	%	2016
Available for sale financial investments				
Ram Dış Ticaret A.Ş.	7,5	2.625.000	7,5	2.325.000
Düzey Tüketim Malları Sanayi Pazarlama A.Ş.	1,1	544.641	1,1	544.641
Others		7.733		7.733
		3.177.374		**2.877.374**

NOTE 6 – FINANCIAL BORROWINGS

The details of financial borrowings as at 31 December are as follows:

	2017	2016
Short-term borrowings	45.140.855	3.036.428
Short-term portion of long-term borrowings	6.220.865	6.247.690
Short-term portion of long-term bonds	50.579.121	561.904
Total short-term borrowings	**101.940.841**	**9.846.022**
Long-term borrowings	7.692.308	13.846.154
Bonds issued	--	50.000.000
Total long-term borrowings	**7.692.308**	**63.846.154**
	109.633.149	**73.692.176**

Company issued bonds on 29 November 2016 amounting to 50.000.000 TL with a maturity of 27 November 2018 and 12,43% interest rate.

There is no mortgage or collateral given related to the Company's financial liabilities (31 December 2016: None).

The Company has local currency unsecured loans with fixed interest rates. The details of financial liabilities as at 31 December are as follows:

	The weighted average interest rate	Original Amount	31 December 2017 (TL)
Short term financial borrowings			
TL borrowings	13,83%	32.502.220	32.502.220
USD borrowings	2,13%	5.000.000	18.859.500
Bonds issued	12.43%	50.579.121	50.579.121
			101.940.841
Long term financial borrowings			
TL borrowings	10,25%	7.692.308	7.692.308
			7.692.308

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 6– FINANCIAL BORROWINGS (Continued)

The details of financial liabilities as at 31 December are as follows:

	The weighted average interest rate	Original Amount	31 December 2016 (TL)
Short term financial borrowings			
TL borrowings	9,05 %	9.284.118	9.284.118
Bonds issued	12,43 %	561.904	561.904
			9.846.022
Long term financial borrowings			
TL borrowings	10,25 %	13.846.154	13.846.154
Bonds issued		50.000.000	50.000.000
			63.846.154

As at 31 December, long-term loans denominated in TL currency payment plan is as follows:

	2017	2016
2018	--	56.153.846
2019	6.153.846	6.153.846
2020	1.538.462	1.538.462
	7.692.308	**63.846.154**

NOTE 7 – TRADE RECEIVABLES AND PAYABLES

Trade receivables

The details of trade receivables are as follows as at 31 December:

	2017	2016
Trade receivables from related parties (Note 25)	244.725.130	161.030.182
Notes and cheques receivable	18.894.685	50.954.445
Trade receivables	11.566.798	13.898.813
Income accruals	9.054.394	7.143.926
Provisions for doubtful receivables	(2.815.858)	(2.649.254)
	281.425.149	**230.378.112**

Movement of provision for doubtful receivables as of 31 December 2017 and 31 December 2016 are as follows:

The nature and level of risk in trade receivables are given in Note 26.

	2017	2016
Opening balance	(2.649.254)	(2.585.332)
Provisions made during the year	(166.604)	(63.922)
Collections	--	--
	(2.815.858)	**(2.649.254)**

Trade Payables

As at 31 December, details of trade payables are as follows:

	2017	2016
Suppliers	122.181.871	95.006.161
Trade payables to related parties (Note 25)	18.958.312	23.077.774
	141.140.183	**118.083.935**

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 8 – OTHER RECEIVABLES AND PAYABLES

As at 31 December, other receivables and payables are as follows:

	2017	2016
Short term other receivables		
Other receivables	165.847	1.492.423
	165.847	**1.492.423**

	2017	2016
Long term other receivables		
Deposits and guarantees given	88.233	90.690
	88.233	**90.690**

	2017	2016
Payables to third parties:		
Accrual for selling expenses	2.930.747	--
Taxes and funds payable	2.762.203	2.334.517
Others	188.643	135.588
	5.881.593	**2.470.105**

NOTE 9 – INVENTORIES

As at 31 December, details of inventories are as follows:

	2017	2016
Raw material	55.686.159	43.242.090
Semi-finished goods	325.587	668.443
Finished goods	175.221.730	158.572.255
-Tomato paste and canned products	*150.364.482*	*139.040.327*
-Milk and dairy products	*20.405.178*	*15.688.647*
-Pasta and bakery products	*4.452.070*	*3.843.281*
Other inventory	443.325	272.901
	231.676.801	**202.755.689**

NOTE 10 – PREPAID EXPENSES AND DEFERRED INCOME

As at 31 December, details of prepaid expense and deferred income is as follows:

Short-term prepaid expenses	2017	2016
Advances given for the purchase of inventory	1.463.569	706.813
Expenses related to future months	1.296.800	--
	2.760.369	**706.813**

Long-term prepaid expenses	2017	2016
Advances given for fixed asset purchases	1.933.563	1.449.747
Expenses related to future years	--	301.689
	1.933.563	**1.751.436**

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 10– PREPAID EXPENSES AND DEFERRED INCOME (Continued)

Short-term deferred income	**2017**	**2016**
Income related to future months	277.171	87.508
Sales advances received	5.238.464	4.619.477
	5.515.635	**4.706.985**

NOTE 11 – PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment and depreciation as of 31 December 2017 and 31 December 2016 are as follows:

	1 January 2017	**Additions**	**Disposals**	**Transfers**	**Corrections (*)**	**31 December 2017**
Cost:						
Land	16.850.999	--	--	--	--	16.850.999
Land improvements	6.881.093	139.085	--	--	--	7.020.178
Buildings	58.571.524	2.265.578	--	1.179.761	--	62.016.863
Machinery and equipment	370.098.697	11.536.108	(1.135.267)	22.264.430	(52.235.679)	350.528.289
Vehicles	1.037.602	32.895	--	--	(409.571)	660.926
Furniture and fixtures	42.040.064	3.614.485	(702.170)	502.789	(10.863.791)	34.591.377
Leasehold improvements	8.678.063	181.073	--	--	--	8.859.136
Construction in progress	2.888.957	26.889.865	--	(24.083.213)	--	5.695.609
	507.046.999	**44.659.089**	**(1.837.437)**	**(136.233)**	**(63.509.041)**	**486.223.377**

Accumulated depreciation:	**1 January 2017**	**Additions**	**Disposals**	**Transfers**	**Corrections (*)**	**31 December 2017**
Land improvements	2.729.927	252.651	--	--	--	2.982.578
Buildings	31.068.652	1.555.041	--	--	--	32.623.693
Machinery and equipment	279.183.417	9.103.403	(1.135.267)	--	(52.235.679)	234.915.874
Vehicles	937.511	19.454	--	--	(409.571)	547.394
Furniture and fixtures	31.222.163	1.490.706	(690.611)	--	(10.863.791)	21.158.467
Leasehold improvements	8.387.263	101.411	--	--	--	8.488.674
	353.528.933	**12.522.666**	**(1.825.878)**	**--**	**(63.509.041)**	**300.716.680**
Net book value	**153.518.066**					**185.506.697**

(*) As of 31 December 2017, the Company has eliminated the effects of the fixed assets that it has completed the useful life and has not continued to use. The total cost of fixed assets that the Company has completed the useful life and does not continue to use is 63.509.041 TL.

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 11 – PROPERTY, PLANT AND EQUIPMENT (Continued)

	1 January 2016	Additions	Disposals	Transfers	31 December 2016
Cost:					
Land	16.850.999	--	--	--	16.850.999
Land improvements	6.480.830	123.586	--	276.677	6.881.093
Buildings	56.811.070	1.048.821	--	711.633	58.571.524
Machinery and equipment	348.589.984	3.256.009	(1.802.960)	20.055.664	370.098.697
Vehicles	1.027.041	17.145	(6.584)	--	1.037.602
Furniture and fixtures	39.163.279	2.625.519	(194.131)	445.397	42.040.064
Leasehold improvements	8.569.747	110.014	(1.698)	--	8.678.063
Construction in progress	2.952.306	21.426.022	--	(21.489.371)	2.888.957
	480.445.256	**28.607.116**	**(2.005.373)**	**--**	**507.046.999**

Accumulated depreciation:	1 January 2016	Additions	Disposals	Transfers	31 December 2016
Land improvements	2.526.093	203.834	--	--	2.729.927
Buildings	29.598.289	1.470.363	--	--	31.068.652
Machinery and equipment	272.975.687	7.934.961	(1.727.231)	--	279.183.417
Vehicles	927.078	17.017	(6.584)	--	937.511
Furniture and fixtures	30.132.259	1.241.977	(152.073)	--	31.222.163
Leasehold improvements	8.301.559	87.402	(1.698)	--	8.387.263
	344.460.965	**10.955.554**	**(1.887.586)**	**--**	**353.528.933**
Net book value	**135.984.291**				**153.518.066**

Depreciation expense amounting to TL 11.173.305 (2016: TL 7.900.620) is recognized in the cost of goods sold, amounting to TL 1.349.361 (2016: TL 977.309) is recognized in general and administrative expenses (2016: TL 2.077.625 is recognized in inventory).

The estimated useful lives of tangible assets are as follows:

Land and land improvements	30 years
Buildings	15-50 years
Machinery and equipment	15-30 years
Furniture and fixtures	10-12 years
Vehicles	9 years
Leasehold improvements	5-8 years

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 12 – INTANGIBLE ASSETS

As of 31 December 2017 and 31 December 2016, intangible assets are composed of software licenses and the movements in intangible assets and accumulated amortization as of these years ended are as follows:

	1 January 2017	Additions	Transfers	Corrections (*)	31 December 2017
Costs	25.043.374	598.120	136.233	(20.743.892)	5.033.835
Accumulated Amortization	(24.201.788)	(334.770)	--	20.743.892	(3.792.666)
Net Book Value	**841.586**	**263.350**	**136.233**	**--**	**1.241.169**

Total of amortization expenses amounted to TL 334.770 are included in general administrative expenses (2016: TL 478.245).

	1 January 2016	Additions	Transfers	Corrections (*)	31 December 2016
Costs	24.878.144	165.230	--	--	25.043.374
Accumulated Amortization	(23.723.543)	(478.245)	--	--	(24.201.788)
Net Book Value	**1.154.601**	**(313.015)**	**--**	**--**	**841.586**

(*) As of 31 December 2017, the Company has eliminated the effects of intangible assets that it has completed the useful life and can not continue to use. The total cost of fixed assets that the Company has completed the useful life and does not continue to use is 20.743.892 TL

With the approval granted by the Ministry of Science, Industry and Technology as of October 6, 2017, the Company's R & D Center started its activities to benefit from incentives and exemptions under the scope of No. 5746. As of 31 December, 2017, TL 632.050 arrears were capitalized in intangible assets.

NOTE 13 – GOVERNMENT INCENTIVES AND GRANTS

The Company has been granted with investment tax credits (ITC) with respect to the certain investment expenditures. Such ITCs are evaluated within the scope of TAS 12 Income Taxes standard and are recognized 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 ITCs can be utilized.

As at 31 December 2017, the ITC amount to be reduced from future income tax payments is TL 18.887.669 (31 December 2016: 13.533.772). The Company has not recognized a deferred tax asset with respect to ITCs since the proportion of investment with ITC is very low (approximately 2% to 3%) and there is unused tax losses.

NOTE 14 – COMMITMENTS AND CONTINGENT ASSETS AND LIABILITIES

As at 31 December, the details of the provisions are as follows:

Provisions	**2017**	**2016**
Provisions for lawsuits	3.570.304	5.789.073
Other provisions	249.625	105.161
	3.819.929	**5.894.234**

The movements of provisions as of 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
Opening balance	5.894.234	6.017.278
Additions during the period	144.464	101.170
Provisions no longer required	(2.218.769)	(224.214)
	3.819.929	**5.894.234**

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 15 – COMMITMENTS AND CONTINGENCIES

The detail of the Company's guarantees given or contingent liabilities on the behalf of each other, related parties, parent company or third parties within the context of business operations or other purposes are as follows:

	2017	2016
A. On the behalf of legal entity	80.256.938	59.192.589
B. On the behalf of associations that included in full consolidation	--	--
C. On the behalf of third parties' liabilities within the context of business operations	--	--
-Given on the behalf of parent company	--	--
-Given on the behalf of other group companies which are not included in B and C clauses	--	--
-Given on the behalf of third parties which are not included in C clause	--	--
D. Others	--	--
	80.256.938	**59.192.589**

The Company has miscellaneous guarantee letters given to tax authorities (related to VAT return receivables), T. İhracat Kredi Bankası A.Ş. and customs which are amounting to TL 80.256.938 (31 December 2016: TL 59.192.589).

All guarantees are given by the company are in local currency and there is no any pledges and mortgages given.

NOTE 16 – EMPLOYEE BENEFITS

Short term employee benefits

Employee benefit payables	**31 December 2017**	**31 December 2016**
Due to personnel	4.234.280	3.656.313
Social security withholdings payable	1.747.462	2.170.510
	5.981.742	**5.826.823**

Short-term provisions for employment benefits:	**31 December 2017**	**31 December 2016**
Provision for unused vacation	900.000	900.000
	900.000	**900.000**

Long-term employee benefits

Severance pay liability:

Under the Turkish Labor Law, the Company is required to pay employment termination benefits to each employee who has qualified for such payment. Also, employees are required to be paid their retirement pay provisions who retired by gaining right to receive retirement pay provisions in accordance with the provisions set out in law no: 2422 issued at 6 March 1981, law no: 4447 issued at 25 August 1999 and the amended Article 60 of the existing Social Insurance Law No: 506. Some transitional provisions related to the pre-retirement service term were excluded from the law since the related law was amended as of 23 May 2002.

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 16 - EMPLOYEE BENEFITS (Continued)

Long-term employee benefits (Continued)

Severance pay liability: (Continued)

The amount payable consists of one month's salary limited to a maximum of 4.732,48 TL for each period of service at 31 December 2017 (31 December 2016: 4.297,21 TL).

Employment termination benefit liabilities are not subject to any funding and there are no legal requirements for funding of these liabilities. The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. IAS 19 requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans.

Accordingly, the following actuarial assumptions are used in the calculation of the total liability:

The principal assumption is that the maximum liability for each year of service will increase parallel with the inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2017, the provision is calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates are calculated assuming an annual inflation rate of 6,50% and a discount rate of 11,77%, resulting in a real discount rate of approximately 4,95% (31 December 2016: %4,50).

As the maximum liability is revised semiannually, the maximum amount of 4.732,48 TL effective from 31 December 2017 is taken into consideration in the calculation of provision from employment termination benefits.

Employment termination benefit liabilities are not subject to any funding and there are no legal requirements for funding of these liabilities. The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees.

The movement of employment termination provision as of 31 December is presented below:

	2017	2016
Opening balance	13.326.867	10.774.304
Service cost	7.062.234	3.980.832
Interest cost	599.709	496.669
Paid in the period	(5.878.472)	(3.586.646)
Actuarial gains / (losses)	(665.382)	1.661.708
	14.444.956	**13.326.867**

NOTE 17 – OTHER ASSETS AND LIABILITIES

As at 31 December, other current / non-current assets and short / long-term liabilities are as follows:

	2017	2016
Other current assets		
Deferred value added tax "VAT"	28.381.332	18.500.000
VAT receivables arising from exports	4.306.342	2.275.421
Others	1.257.455	860.405
	33.945.129	**21.635.826**

	2017	2016
Other non-current assets:		
Deferred VAT	30.438.586	29.812.925
	30.438.586	**29.812.925**

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 18 – SHAREHOLDERS' EQUITY

a) Share Capital

As at 31 December, the shareholders and paid-in capital with the historical values are as follows:

	%	2017	%	2016
Koç Holding A.Ş.	43,7	59.364.947	43,7	59.364.947
Shares publicly open in stock exchange	41,4	56.312.844	41,4	56.312.844
Kagome Co. Ltd.	3,7	5.071.168	3,7	5.071.168
Temel Ticaret ve Yatırım A.Ş.	3,3	4.427.889	3,3	4.427.889
Sumitomo Corporation	1,5	2.077.983	1,5	2.077.983
Others	6,4	8.745.169	6,4	8.745.169
Total Share Capital	100	**136.000.000**	100	**136.000.000**

As at 31 December 2017, inflation adjustment to share capital is TL 21.601.088. (31 December 2016: TL 21.601.088)

The Company’s share capital of year 2017 consists of 13.600.000.000 number of shares and there is no preferred stock (2016: 13.600.000.000 number of shares).

b) Actuarial gain/losses in defined benefit plans

Comprised of actuarial gains and losses recognized in other comprehensive income, as a result of the adoption of standards IAS 19 (2011).

c) Restricted reserves

Details of restricted reserves are as follows:

	31 December 2017	31 December 2016
Legal reserves	20.033.820	14.676.742
Special reserves	69.915.703	69.915.703
	89.949.523	**84.592.445**

Legal Reserves

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code, are not distributable to shareholders. The first legal reserve is appropriated out of historical statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid-in share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in capital.

In accordance with the Communiqué No:XI-29 and related announcements of the CMB, effective from 1 January 2008, “Share capital”, “Restricted Reserves” and “Share Premiums” shall be carried at their statutory amounts. The valuation differences resulted due to the application of the requirements set out in the communiqué (such as, inflation adjustment differences) shall be disclosed as follows:

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

- If the difference is due to the inflation adjustment of “Restricted Reserves” and “Share Premium” and the amount has not been utilized in dividend distribution or capital increase yet, it shall be classified under “Retained Earnings”.

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 18 – SHAREHOLDERS 'EQUITY (Continued)

Dividend Payment

In General Assemble Meeting of the Company on 27 March 2017;

It has been decided that, TL 12.454.251,68 as first dividend and TL 14.772.748,32 as second dividend which amount to TL 27.227.000 in total and dividend for holders of redeemed shares amounting to TL 2.773.563 will be paid in cash.

Dividend payments are completed on 6 April 2017.

Special Reserves

According to the article 5/1-e of Corporate Tax Law No: 5520, 75% of the earnings from the sale of the properties and participation shares that corporations have kept among their assets for at least two full years, and from the sales of founders' shares, preference shares and preferred rights they have kept for same duration are exempted from corporate tax. This exception shall apply in the term the sale is made, and the part of the proceeds of the sale that benefited from the exception shall be kept in a special fund account of liabilities, until the end of the fifth year following the sale. However, the sale price must be collected until the end of the second calendar year following the year the sale is made.

Revaluation surplus of financial assets

As of 31 December 2017, revaluation on fair value of available for sale financial assets amounting to TL 300.000 increase is recognized in financial assets revaluation reserve in equity (31 December 2016: TL 675.000 decrease)

NOTE 19 – SALES AND COST OF SALES

As at 31 December, details of revenue and sales cost are as follows:

	2017	**2016**
Domestic sales	1.060.016.417	983.433.916
Foreign sales	95.008.384	84.977.934
Rebates and sales discounts	(80.990.091)	(87.291.604)
Total operating revenue	**1.074.034.710**	**981.120.246**
Raw material costs	(716.769.114)	(640.755.176)
Labor costs	(40.132.811)	(29.936.428)
General production expenses	(83.695.686)	(76.885.139)
Depreciation costs	(11.173.305)	(9.858.174)
Change in inventory	16.369.045	6.644.245
Cost of sales	**(835.401.871)**	**(750.790.672)**
Gross profit	**238.632.839**	**230.329.574**

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 20 – EXPENSES BY NATURE

As at 31 December, details of marketing, selling and distribution expenses are as follows:

	2017	2016
Marketing, Selling and Distribution Expenses:		
Sales incentive and gondola participation expenses	(50.943.960)	(46.195.040)
Transportation and insurance expenses	(42.978.611)	(34.855.414)
Advertisement, and promotion expenses	(21.034.842)	(18.831.292)
Personnel expenses	(8.913.081)	(8.790.979)
Sales support expenses	(8.434.217)	(8.094.311)
Subcontracting expenses	(2.985.258)	(2.730.912)
Export expenses	(2.235.350)	(2.221.371)
Others	(2.561.558)	(2.475.431)
	(140.086.877)	**(124.194.750)**

As at 31 December, the details of general and administrative expenses are as follows:

	2017	2016
General and administrative expenses:		
Personnel expenses	(19.510.474)	(19.768.416)
Employee termination benefits	(7.755.555)	(3.977.501)
Consultancy and lawsuit expenses	(7.256.785)	(8.364.769)
Administrative expenses	(4.262.749)	(2.921.824)
IT expenses	(2.325.367)	(1.895.305)
Depreciation and amortization expenses	(1.684.131)	(1.455.554)
Taxes and duties expenses	(949.303)	(1.041.926)
Transportation, travel expenses	(945.643)	(577.248)
Repair and maintenance expense	(298.616)	(754.861)
Others	(2.533.231)	(2.572.179)
	(47.521.854)	**(43.329.583)**

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 21 – OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

As at 31 December, details of other income and profits are as follows:

	2017	**2016**
Other Operating Income		
Exchange differences from commercial activities	1.693.188	623.910
Income from maturity differences	30.185.000	10.828.634
Provisions released	3.868	--
Others	5.012.400	2.197.634
	36.894.456	**13.650.178**

As at 31 December, details of other expenses are as follows:

	2017	**2016**
Other Operating Expense		
Exchange differences from commercial activities	(1.906.485)	(677.117)
Expense from maturity differences	(11.598.490)	(3.165.283)
Others	(2.856.347)	(2.381.865)
	(16.361.322)	**(6.224.265)**

NOTE 22 – INCOME AND EXPENSES FROM INVESTING ACTIVITIES

As at 31 December, investment income and profits from operations is as follows:

Income from Investing Activities	**2017**	**2016**
Dividend income	937.378	918.567
Gain on sale of property, plant and equipment	112.309	83.747
Other	129.143	215.571
	1.178.830	**1.217.885**

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 22 – INCOME AND EXPENSES FROM INVESTING ACTIVITIES (Continued)

As at 31 December, investment loss and expense from operations is as follows:

Expenses from investing activities	**2017**	**2016**
Loss on sale of property, plant and equipment	(120.364)	(33.574)
	(120.364)	**(33.574)**

NOTE 23 – FINANCIAL INCOME AND EXPENSES

As at 31 December, financial incomes are as follows:

	2017	**2016**
Foreign exchange gains	6.007.014	3.398.925
Interest income on bank loans	1.822.966	3.103.746
	7.829.980	**6.502.671**

As at 31 December, financial expenses are as follows:

	2017	**2016**
Foreign exchange expenses, net	(5.276.344)	(382.185)
Interest expense on bank loans	(9.540.713)	(8.169.128)
	(14.817.057)	**(8.551.313)**

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 24 – TAX ASSESTS AND LIABILITIES

	1 January- 31 December 2017	1 January- 31 December 2016
Current tax expense	(1.338.341)	(1.518.132)
Deferred tax expense	(2.203.577)	(3.119.883)
Total tax expense	**(3.541.918)**	**(4.638.015)**

	2017	2016
Current tax liability		
Corporate tax provision	130.838	--
	130.838	**--**

Corporate Tax

The Company is subject to corporate tax applicable in Turkey.

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

The effective tax rate in 2017 is 20% (2016: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate is 20% in 2017 (2016: 20%). Losses are allowed to be carried 5 years maximum to be deducted from the taxable profit of the following years. However, losses occurred cannot be deducted from the profit occurred in the prior years retroactively.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax applied in between 24 April 2003 – 22 July 2006 is 10% and commencing from 22 July 2006, this rate has been changed to 15% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Withholding tax at the rate of 19,8% is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Subsequent to this date, the investments without investment incentive certificates do not qualify for tax allowance.

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 24 – TAX ASSESTS AND LIABILITIES (Continued)

Deferred Tax:

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for TFRS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for TFRS and tax purposes and they are given below.

For calculation of deferred tax asset and liabilities, the rate of 20% (2016: 20%) is used.

As of 31 December 2017 the effective tax rate in Turkey is 20%. However, according to new Corporate Tax Law which is published on official Gazette numbered 30261 on 5 December 2017, corporate tax rate will be 22% for fiscal years 2018, 2019 and 2020 in Turkey. Due to this change will be effective on 1 January 2018, the Company used 20% rate for its interim financial statements. Under the law numbered 30261 mentioned above tax assets and liabilities are recognized in the financial statements by using 20% tax rate for the portion that will generate tax impact in 2018, 2019, and 2020 as of 31 December 2017. On the other hand, for the portion that will genrate tax impact after 2021 is calculated by using 20% tax rate.

In Turkey, the companies cannot declare a consolidated tax return, therefore subsidiaries that have deferred tax assets position were not netted off against subsidiaries that have deferred tax liabilities position and disclosed separately.

The composition of cumulative temporary differences and the related deferred tax assets and liabilities in respect of items for which deferred tax has been provided at 31 December 2017 and 2016 using the enacted tax rates is as follows.

Deferred tax assets / (liabilities):	**2017**	**2016**
Tax receivable from carry forward tax losses	--	1.721.784
Severance pay liability	2.888.991	2.665.373
Difference between tax base and carry value of Property, plant and equipment	(4.584.607)	(2.868.625)
Difference between tax base and carrying value of inventories	709.340	276.389
Doubtful receivables provisions	53.312	47.817
Provision for unused vacation	180.000	180.000
Provision for scraps	49.925	--
Sales expense accruals	586.149	225.110
Others	268.271	240.186
	151.381	**2.488.034**

There is no carry forward tax losses has been recognized as of 31 December 2017 (31 December: 2016: TL 8.608.918)

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 24 – TAX ASSESTS AND LIABILITIES (Continued)

Movement of the deferred tax for the years ended 31 December 2017 and 31 December 2016 is as follows:

Deferred tax movements:	1 January- 31 December 2017	1 January- 31 December 2016
Opening balance as of January 1	2.488.034	5.275.575
Recognized directly in equity	(133.076)	332.342
Deferred tax income	(2.203.577)	(3.119.883)
	151.381	**2.488.034**

Total charge for the year can be reconciled to the accounting profit as follows:

The reconciliation of tax:	**2017**	**2016**
Profit for the period from continuing operations	64.725.443	69.338.575
Income tax rate 20 % (2016: 20%)	(12.945.089)	(13.867.715)
Tax effect of:		
- Nondeductible expenses	(261.966)	(36.748)
- Tax - exempt income	1.037.858	183.713
- Effect of deferred tax assets and carry forward losses for which provision had been recognized in the previous periods	1.721.784	11.433.128
- Tax effect of government incentives and grants	8.187.461	--
- Additional corporate tax charge for prior period	(1.338.341)	(1.518.132)
- Permanent differences	(58.871)	(772.823)
- Effect of change in statutory tax rate on deferred tax amount	33.802	--
- Others	81.445	(59.438)
Tax expense in the income statement	**(3.541.918)**	**(4.638.015)**

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 25 – RELATED PARTY TRANSACTIONS

i) As at 31 December, the details of receivables and payables from related parties are as follows:

a) Bank deposits:

	2017	**2016**
Yapı ve Kredi Bankası A.Ş.	4.698.072	24.124.539
	4.698.072	**24.124.539**

b) Financial borrowings:

	2017	**2016**
Yapı ve Kredi Bankası A.Ş.	25.262.500	--
	25.262.500	**--**

c) Receivables from related parties:

	2017	**2016**
Düzey (*)	240.938.220	158.234.803
Ram Dış Ticaret A.Ş.	3.767.865	2.659.335
Sc Foods	--	117.984
Others	19.045	18.060
	244.725.130	**161.030.182**

(*) Domestic sales and marketing activities of the Company are operated by Düzey which is a member of Koç Group.

d) Payables to related parties:

Trade Payables	**2017**	**2016**
Zer Merkezi Hizmetler ve Ticaret A.Ş.	14.267.889	20.482.086
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	1.435.126	912.484
Ram Sigorta Aracılık Hizmetleri A.Ş.	900.757	39.964
Otokoç Otomotiv Tic.ve San.A.Ş.	811.941	581.724
Aygaz Doğalgaz Toptan Satış A.Ş	539.225	588.014
Setur Servis Turistik A.Ş	445.432	107.021
Temel Ticaret Yatırım A.Ş	193.250	225.283
Divan Turizm İşletmeleri A.Ş.	59.637	23.623
Opet Petrolcülük A.Ş.	40.218	58.006
Others	264.837	59.569
	18.958.312	**23.077.774**
Other Payables		
Koç Holding A.Ş.	5.565.583	5.605.300
Total Trade and Payables	**24.523.895**	**28.683.074**

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 25 – RELATED PARTY TRANSACTIONS (Continued)

ii) As at 31 December, the details of significant sales to related parties and purchases from related parties are as follows:

a) Sales to related parties:

	2017	2016
Düzey (*)	942.968.424	873.593.810
Ram Dış Ticaret A.Ş.	30.778.309	4.889.304
Sc Foods	--	22.044.314
Sumitomo Corporation	--	9.949.785
	973.746.733	**910.477.213**

(*) Domestic sales and marketing activities of the Company are operated by Düzey Tüketim Malları Sanayi Pazarlama ve Ticaret A.Ş., which is a member of Koç Group. Average maturity for the sales to Düzey Tüketim Malları Sanayi Pazarlama A.Ş. is 85 days.

b) Purchases from related parties:

	2017	2016
Zer Merkezi Hizmetler ve Ticaret A.Ş.	26.771.849	21.021.170
Aygaz A.Ş.	13.364.801	14.852.946
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	4.096.340	--
Opet Petrolcülük A.Ş.	861.792	762.919
Otokoç Otomotiv Tic. ve San. A.Ş.	261.070	--
Divan Turizm İşletmeleri	62.462	75.683
	45.418.314	**36.712.718**

c) Service purchases from related parties:

	2017	2016
Zer Merkezi Hizmetler ve Ticaret A.Ş. (***)	57.695.097	46.900.830
Koç Holding A.Ş. (**)	4.628.718	8.174.380
Ram Sigorta Aracılık Hizmetleri A.Ş. (*)	2.463.954	601.572
Temel Ticaret ve Yatırım A.Ş.	2.283.590	1.999.549
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	1.527.630	2.093.409
Setur Servis Turistik A.Ş.	1.505.471	963.535
Otokoç Otomotiv Tic. ve San. A.Ş.	1.448.049	1.429.980
Others	607.032	378.849
	72.159.541	**62.542.104**

(*) Amount represents accrued premium amount as of 31 December 2017, which has been resulted from insurance policies signed with third party insurance companies with the intermediary of Ram Sigorta Aracılık Hizmetleri A.Ş.

(**) The amount contains finance, legal consultancy, planning, tax consultancy, senior management service costs invoiced by the Company's parent company "Koç Holding A.Ş." regarding their related services according to the distribution described in Regulation No:11 "Intra Group Services" of "General Communiqué No:1 related to Disguised Profit Distribution via Transfer Pricing".

(***) The Company, obtains logistic, media and packaging services from Zer Merkezi Hizmetler ve Ticaret A.Ş.

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 25 – RELATED PARTY TRANSACTIONS (Continued)

iii) As at 31 December, the details of financial income and expenses from/to related parties are as follows:

a) Interest expense:

	2017	2016
Yapı ve Kredi Bankası A.Ş.	275.625	19.066
	275.625	**19.066**

b) Interest income:

	2017	2016
Yapı ve Kredi Bankası A.Ş.	174.884	2.078.596
	174.884	**2.078.596**

iv) As at 31 December, the details of other expenses to related parties are as follows:

a) Rent expense:

	2017	2016
Temel Ticaret ve Yatırım A.Ş.	979.887	850.797
	979.887	**850.797**

b) Payments to key management:

Tat Gıda's senior managers are the Chairman and Members of the Board of Directors, the General Manager, the Assistant General Managers and the general directors. In 2017, the total benefits provided to the senior management of Tat Gıda is TL 8.801.805 (31 December 2016: TL 7.758.766). All of this amount consists of short-term benefits. The costs incurred by Tat Gıda were realized as TL 7.008.750 (31 December 2016: TL 6.556.877) after the costs reflected to the companies served by Tat Gıda.

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 26 – NATURE AND THE LEVEL OF RISK RESULTED FROM FINANCIAL INSTRUMENTS

a) Capital Risk Management

The Company manages its capital to ensure that entities in the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of debt, which includes the borrowings disclosed in Note 6, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Company's objectives when managing capital are to safeguard the Company'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 rearrange capital structure, the Company can return back capital to shareholders, issue new shares and sale assets in order to decrease debt requirement.

The Company controls its capital using the net debt/total capital ratio. This ratio is the calculated as net debt divided by the total capital amount. Net debt is calculated as total liability amount (comprises of financial liabilities, leasing, trade payables and payables to related parties as presented in the balance sheet) less cash and cash equivalents. Total capital is calculated as shareholders' equity plus the net debt amount as presented in the balance sheet.

As at 31 December the debt to equity ratio is as follows:

	2017	**2016**
Total Liabilities	109.633.149	73.692.176
Negative: Cash and cash equivalents (Note 4)	(13.025.751)	(43.117.818)
Net Debt	96.607.398	30.574.358
Total Equity	492.975.635	460.960.367
Net Liability/Equity	0,1960	0,0663

b) Financial Risk Factors

The risks of the Company, resulted from operations, include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Company's risk management program generally seeks to minimize the effects of uncertainty in financial market on financial performance of the Company. The Company uses derivative financial instruments in order to safeguard itself from different financial risks.

Risk management is implemented by finance department according to the policies approved by Board of Directors. The Company's finance department provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyses exposures by degree and magnitude of risks. The written procedures are formed by Board of Directors to manage the foreign currency risk, interest risk, credit risk, use of derivative and non-derivative financial instruments and the assessment of excess liquidity. There are not any changes in financial risk factors and credit risk management of the Company as compared to previous year.

b.1) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company manages this risk by the credit limits up to the guarantees received from customers. The usage of credit limits are monitored by the Company according to the customer's credibility is evaluated continuously. Trade receivables consist of many customers that operate in various industries and locations. Credit risk of the receivables from counterparties are evaluated perpetually.

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 26 – NATURE AND THE LEVEL OF RISK RESULTED FROM FINANCIAL INSTRUMENTS (Continued)

b) Financial Risk Factors (Continued)

b.1) Credit risk management (Continued)

	Receivables					
	Trade Receivables		**Other Receivables**		**Deposits**	
31 December 2017	**Related Party**	**Third Party**	**Related Party**	**Third Party**	**in Banks**	**Others**
Maximum net credit risk as of balance sheet date	244.725.130	36.700.019	--	254.080	13.025.751	453.194
				--	--	--
- The part of maximum risk under guarantee with collateral etc.	--	2.130.744	--	--	--	--
A. Net book value of financial assets that are neither past due nor impaired	195.089.657	34.368.336	--	254.080	13.025.751	453.194
B. Carrying value of financial assets that are past due	49.635.473	2.331.683	--	--	--	--
but not impaired			--	--	--	--
C. Net book value of impaired assets	--	2.815.858	--	--	--	--
- Past due (gross carrying amount)	--	--	--	--	--	--
- Impairment (-)	--	(2.815.858)	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--
- Not past due (gross carrying amount)	--	--	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--
D. Off-balances sheet items with credit risk	--	--	--	--	--	--

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 26 – NATURE AND THE LEVEL OF RISK RESULTED FROM FINANCIAL INSTRUMENTS (Continued)

b) Financial Risk Factors (Continued)

b.1) Credit risk management (Continued)

	Receivables					
	Trade Receivables		**Other Receivables**			
31 December 2016	**Related Party**	**Third Party**	**Related Party**	**Third Party**	**Deposits in Banks**	**Others**
Maximum net credit risk as of balance sheet date	161.030.182	69.347.930	--	1.583.113	43.117.708	110
				--	--	--
- The part of maximum risk under guarantee with collateral etc.	--	--	--	--	--	--
A. Net book value of financial assets that are neither past due nor impaired	94.127.480	58.070.241	--	1.583.113	43.117.708	110
B. Carrying value of financial assets that are past due	66.902.702	11.277.689	--	--	--	--
but not impaired			--	--	--	--
C. Net book value of impaired assets	--	2.649.354	--	--	--	--
- Past due (gross carrying amount)	--	--	--	--	--	--
- Impairment (-)	--	(2.649.354)	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--
- Not past due (gross carrying amount)	--	--	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--
D. Off-balances sheet items with credit risk	--	--	--	--	--	--

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 26 – NATURE AND THE LEVEL OF RISK RESULTED FROM FINANCIAL INSTRUMENTS (Continued)

b) Financial Risk Factors (Continued)

b.1) Credit risk management (Continued)

	Receivables			
31 December 2017	**Trade Receivables**	**Other Receivables**	**Deposits in banks**	**Others**
Past due 1-30 days	40.865.657	--	--	--
Past due 1-3 months	11.000.102	--	--	--
Past due 3-12 months	101.397	--	--	--
Total past due receivables	**51.967.156**	**--**	**--**	**--**

	Receivables			
31 December 2016	**Trade Receivables**	**Other Receivables**	**Deposits in banks**	**Others**
Past due 1-30 days	57.012.534	--	--	--
Past due 1-3 months	20.830.170	--	--	--
Past due 3-12 months	337.688	--	--	--
Total past due receivables	**78.180.392**	**--**	**--**	**--**

As of 31 December, letter of guarantees held for the trade receivables that are past due as but not provision booked is as follows:

	2017	**2016**
	Nominal Value	Nominal Value
The part under guarantee with collateral	2.130.744	19.020.815

b.2) Liquidity risk management

Liquidity risk management responsibility mainly belongs to the board of directors. The board of directors has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities.

The following table presents the maturity of Company's non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of non-derivative financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 26 – NATURE AND THE LEVEL OF RISK RESULTED FROM FINANCIAL INSTRUMENTS (Continued)

b) Financial Risk Factors (Continued)

b.2) Liquidity risk Management (Continued)

31 December 2017

Contractual Maturity Analysis	**Carrying Value**	**Total Cash Outflows in accordance with contract (I+II+III+IV)**	**Less than 3 months (I)**	**3-12 months (II)**	**1-5 years (III)**	**More than 5 years (IV)**
Non-derivative financial liabilities						
Bank borrowings and issued bonds	109.633.149	120.878.778	48.722.737	63.866.693	8.289.348	--
Trade payables	122.181.871	122.181.871	122.181.871	--	--	--
Trade payables to related parties	18.958.312	18.958.312	18.958.312	--	--	--
Total liabilities	**250.773.332**	**262.018.961**	**189.862.920**	**63.866.693**	**8.289.348**	--

31 December 2016

Contractual Maturity Analysis	**Carrying Value**	**Total Cash Outflows in accordance with contract (I+II+III+IV)**	**Less than 3 months (I)**	**3-12 months (II)**	**1-5 years (III)**	**More than 5 years (IV)**
Non-derivative financial liabilities						
Bank borrowings and issued bonds	73.692.176	89.261.671	1.031.800	2.100.000	86.129.871	--
Trade payables	95.006.161	95.006.161	95.006.161	--	--	--
Trade payables to related parties	23.077.774	23.077.774	23.077.774	--	--	--
Total liabilities	**191.776.111**	**207.345.606**	**119.115.735**	**2.100.00**	**86.129.871**	**--**

b.3) Market risk management

The Company's activities expose it to a variety of financial risks including foreign currency risk and interest rate risk as explained below. The Company uses derivative financial instruments to hedge certain risk exposures in order to manage foreign currency and interest rate risks. Market risk exposures are also measured by sensitivity analysis and stress scenarios.

There has been no change in the Company's exposure to market risks or the manner which it manages and measures the risk.

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 26 – NATURE AND THE LEVEL OF RISK RESULTED FROM FINANCIAL INSTRUMENTS (Continued)

b) Financial Risk Factors (Continued)

b.4) Foreign currency risk management

Transactions in foreign currencies cause foreign currency risk. Currency risk is managing by foreign currency purchase/sale contracts based on the approved policies.

The foreign currency denominated assets and liabilities of monetary and non-monetary items are as follows:

31 December 2017	**TL Equivalent**	**USD**	**Euro**	**Others**
1. Trade Receivables	9.491.770	1.391.276	917.729	19.686
2.a Monetary financial assets	12.234.069	3.168.096	62.967	--
2.b Non-monetary financial assets	--	--	--	--
3. Other	--	--	--	--
4. CURRENT ASSETS	21.725.839	4.559.372	980.696	19.686
5. Trade Receivables	--	--	--	--
6.a Monetary financial assets	--	--	--	--
6.b Non-monetary financial assets	--	--	--	--
7. Other	--	--		
8. NON-CURRENT ASSETS				
9. TOTAL ASSETS	**21.725.839**	**4.559.372**	**980.696**	**19.686**
10. Trade Payables	(10.079.284)	(1.166.257)	(1.254.935)	(2.681)
11. Financial Liabilities	(18.859.500)	(5.000.000)	--	--
12.a Other Monetary Financial Liabilities	(4.938.824)	(1.309.373)	--	--
12.b Other Non-monetary Financial Liabilities	--	--	--	--
13. CURRENT LIABILITIES	(33.877.608)	(7.475.630)	(1.254.935)	(2.681)
14. Trade Payables	--	--	--	--
15. Financial Liabilities	--	--	--	--
16.a Other Monetary Financial Liabilities	--	--	--	--
16.b Other Non-monetary Financial Liabilities	--	--	--	--
17. NON CURRENT LIABILITIES	--	--	--	--
18. TOTAL LIABILITIES	**(33.877.608)**	**(7.475.630)**	**(1.254.935)**	**(2.681)**
19. Net asset /liability position of off-balance sheet derivatives (19a-19b)	--	--	--	--
19.a Off-balance sheet foreign currency derivative assets	--	--	--	--
19.b Off-balance sheet foreign currency derivative liabilities	--	--	--	--
20. Net foreign currency asset/liability position	(12.151.769)	(2.916.258)	(274.239)	17.005
21. Net foreign currency asset / liability position of non-monetary items (1+2a+6a-10-11-12a-14-15-16a)	**(12.151.769)**	**(2.916.258)**	**(274.239)**	**17.005**
22. Fair value of foreign currency hedged financial assets	--	--	--	--
23. Hedged foreign currency assets	--	--	--	--

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 26 – NATURE AND THE LEVEL OF RISK RESULTED FROM FINANCIAL INSTRUMENTS (Continued)

b) Financial Risk Factors (Continued)

b.4) Foreign currency risk management (Continued)

31 December 2016	**TL Equivalent**	**USD**	**Euro**	**Others**
1. Trade Receivables	11.883.095	2.400.336	920.420	4.876
2.a Monetary financial assets	20.980.685	5.854.508	58.583	37.084
2.b Non-monetary financial assets	--	--	--	--
3. Other	--	--	--	--
4. CURRENT ASSETS	32.863.780	8.254.844	979.003	41.960
5. Trade Receivables	--	--	--	--
6.a Monetary financial assets	--	--	--	--
6.b Non-monetary financial assets	--	--	--	--
7. Other	--	--		
8. NON-CURRENT ASSETS				
9. TOTAL ASSETS	**32.863.780**	**8.254.844**	**979.003**	**41.960**
10. Trade Payables	(1.952.845)	(84.385)	(446.340)	--
11. Financial Liabilities	--	--	--	--
12.a Other Monetary Financial Liabilities	(4.529.242)	(1.287.009)	--	--
12.b Other Non-monetary Financial Liabilities	--	--	--	--
13. CURRENT LIABILITIES	(6.482.087)	(1.371.394)	(446.340)	--
14. Trade Payables	--	--	--	--
15. Financial Liabilities	--	--	--	--
16.a Other Monetary Financial Liabilities	--	--	--	--
16.b Other Non-monetary Financial Liabilities	--	--	--	--
17. NON CURRENT LIABILITIES	--	--	--	--
18. TOTAL LIABILITIES	**(6.482.087)**	**(1.371.394)**	**(446.340)**	**--**
19. Net asset /liability position of off-balance sheet derivatives (19a-19b)	--	--	--	--
19.a Off-balance sheet foreign currency derivative assets	--	--	--	--
19.b Off-balance sheet foreign currency derivative liabilities	--	--	--	--
20. Net foreign currency asset/liability position	26.381.693	6.883.450	532.663	41.960
21. Net foreign currency asset / liability position of non-monetary items (1+2a+6a-10-11-12a-14-15-16a)	**26.381.693**	**6.883.450**	**552.663**	**41.960**
22. Fair value of foreign currency hedged financial assets	--	--	--	--
23. Hedged foreign currency assets	--	--	--	--

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 26 – NATURE AND THE LEVEL OF RISK RESULTED FROM FINANCIAL INSTRUMENTS (Continued)

b) Financial Risk Factors (Continued)

Currency risk sensitivity

The Company is mainly exposed to foreign currency risk in USD and EURO.

The following table details the Company's sensitivity to a 10% increase and decrease in the USD, GBP and Euro. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis only includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Company where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit / loss and other equity.

	31 December 2017	
	Profit / Loss	
	Appreciation of Foreign currency	Devaluation of Foreign currency
In the case of appreciation of US Dollar at 10% ratio compared to TL		
1 - US Dollar net asset / liability	(1.099.983)	1.099.983
2- Part of hedged from US Dollar risk (-)	--	--
3- US Dollar net effect	**(1.099.983)**	**1.099.983**
In the case of appreciation of EURO at 10% ratio compared to TL		
4 - Euro net asset / liability	(123.833)	123.833
5 – Part of hedged from EURO risk (-)	--	--
6- Euro net effect	**(123.833)**	**123.833**
In the case of appreciation of GBP at 10% ratio compared to TL		
7 – GBP net asset / liability	8.639	(8.639)
8 – Part of hedged from GBP risk (-)	--	--
9 – GBP net effect	**8.639**	**(8.639)**
TOTAL	**(1.215.177)**	**1.215.177**

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 26 – NATURE AND THE LEVEL OF RISK RESULTED FROM FINANCIAL INSTRUMENTS (Continued)

b) Financial Risk Factors (Continued)

	31 December 2016	
	Profit / Loss	
	Appreciation of Foreign currency	Devaluation of Foreign currency
In the case of appreciation of US Dollar at 10% ratio compared to TL		
1 - US Dollar net asset / liability	2.422.434	(2.422.434)
2- Part of hedged from US Dollar risk (-)	--	--
3- US Dollar net effect	**2.422.434**	**(2.422.434)**
In the case of appreciation of EURO at 10% ratio compared to TL		
4 - Euro net asset / liability	197.613	(197.613)
5 – Part of hedged from EURO risk (-)	--	--
6- Euro net effect	**197.613**	**(197.613)**
In the case of appreciation of GBP at 10% ratio compared to TL		
7 – GBP net asset / liability	18.122	(18.122)
8 – Part of hedged from GBP risk (-)	--	--
9 – GBP net effect	**18.122**	**(18.122)**
TOTAL	**2.638.169**	**(2.638.169)**

Interest rate risk management

The Company borrows funds at fixed and variable rates that the Company is exposed to interest rate risk. By the Company, such risk is managed between fixed and variable rate debt by making an appropriate distribution with the interest rate swap contracts and term interest rate contracts. Hedging strategies, with the interest rate expectations and defined risk, is evaluated on a regular basis. Thus, the creation of an optimal hedging strategy, is intended to control review to balance sheet position and interest payments with different interest rates.

The following sensitivity analysis is determined on the exposure to interest rate risks of non-derivative instruments in the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. The Company management expects a floatation in interest rates of 1%. The respective amount is used in reporting to the top management within the Company.

Interest rate statement of position	**31 December 2017**	**31 December 2016**
Fixed interest instruments		
Financial Liabilities	109.633.149	73.692.176

If the interest rates were higher/lower by 1%, the Company's interest expenses before tax would be higher/lower by TL 93.032 (31 December 2016: TL 76.276); and interest expenses after tax would be higher/lower by TL 74.426 (31 December 2016: TL 61.021).

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 27 – FINANCIAL INSTRUMENTS

Financial Instruments' Classification and Fair Value

31 December 2017	Financial assets at amortized cost	Loans and Receivables (cash and cash equivalents included)	Available for sale financial assets	Financial liabilities at fair value through profit or loss	Financial assets at fair value through profit or loss	Carrying Value	Note
Financial Assets							
Cash and cash equivalents	13.025.751	--	--	--	--	13.025.751	4
Trade receivables	--	36.700.019	--	--	--	36.700.019	7
Receivables from related parties	--	244.725.130	--	--	--	244.725.130	25
Other financial assets	--	--	3.177.374	--	--	3.177.374	5
Financial Liabilities							
Loans and borrowings	--	--	--	109.633.149	--	109.633.149	6
Trade payables	--	--	--	122.181.871	--	122.181.871	7
Payables to related parties	--	--	--	18.958.312	--	18.958.312	25

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 27 – FINANCIAL INSTRUMENTS (Continued)

Financial Instruments' Classification and Fair Value (Continued)

31 December 2016	Financial assets at amortized cost	Loans and Receivables (cash and cash equivalents included)	Available for sale financial assets	Financial liabilities at fair value through profit or loss	Financial assets at fair value through profit or loss	Carrying Value	Note
Financial Assets							
Cash and cash equivalents	43.117.818	--	--		--	43.117.818	4
Trade receivables	--	69.347.930	--		--	69.347.930	7
Receivables from related parties	--	161.030.182	--		--	161.030.182	25
Other financial assets	--	--	2.877.374			2.877.374	5
Financial Liabilities							
Loans and borrowings	--	--	--	73.692.176	--	73.692.176	6
Trade payables	--	--	--	95.006.161	--	95.006.161	7
Payables to related parties	--	--	--	23.077.774	--	23.077.774	25

(Amounts are expressed in Turkish Lira (TL) unless otherwise stated)

NOTE 27 – FINANCIAL INSTRUMENTS (Continued)

Fair value of financial instruments

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

The following methods and assumptions are used to estimate the fair values of financial instruments:

Financial assets

Carrying values of cash and cash equivalents and trade receivables are assumed to reflect their fair values due to their short-term nature.

Financial liabilities

Fair values of short term borrowings and trade payables are assumed to approximate their carrying values due to their short term nature.

Bank borrowings are measured at their amortized cost. It is estimated that the borrowings' fair values approximate to their carrying values.

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

1) First level: Financial assets and liabilities in active markets for identical assets and liabilities are valued at the quoted prices.
2) Second level: Financial assets and liabilities and the related assets or liabilities other than quoted prices in first level directly or indirectly observable market prices are used to determine valuation.
3) Third level: Financial assets and liabilities, assets or liabilities that are used in determining the fair value observed in the market valuation is based on the data.

The fair values of the financial assets and liabilities classification level are as follows:

	Level of fair value As of reporting date		
31 December 2017	1st Level	2nd Level	3rd Level
Financial Assets at fair value through profit or loss	TL	TL	TL
Available for sale financial assets	--	--	3.177.374
Total	--	--	**3.177.374**

	Level of fair value As of reporting date		
31 December 2016	1st Level	2nd Level	3rd Level
Financial Assets at fair value through profit or loss	TL	TL	TL
Available for sale financial assets	--	--	2.877.374
Total	--	--	**2.877.374**

NOTE 28 – SUBSEQUENT EVENTS

As of 31 December 2017 the effective tax rate in Turkey is 20%. However, according to new Corporate Tax Law which is published on official Gazette numbered 30261 on 5 December 2017, corporate tax rate will be 22% for fiscal years 2018, 2019 and 2020 in Turkey. Due to this change will be effective on 1 January 2018, the Company used 20% rate for its interim financial statements.