2017 ANNUAL REPORT

YÜNSA

WE HAVE BEEN AIMING FOR HIGH CUSTOMER SATISFACTION WITH OUR SENSE OF QUALITY SINCE THE DAY WE WERE ESTABLISHED. WE CONVEY OUR FABRICS BLENDED WITH DESIGN AND FASHION TO OUR CUSTOMERS ALL AROUND THE WORLD. WITH OUR EXPERIENCE OF 44 YEARS, WE FEEL THE PRIDE OF BEING AMONG THE LARGEST WORSTED AND WOOLEN FABRIC OF THE WORLD AND WE CONTINUE WORKING FOR WORLD LEADERSHIP.

Turkey's and Europe's largest worsted wool fabric producer

Affiliates:
Yünsa Germany, Yünsa USA,
Yünsa UK and Yünsa Italy.

Agencies:
Austria, Canada, Czech Republic, Denmark,
Finland, France, Holland, India, Italy, Israel,
Japan, Korea, Norway, Russia, Serbia, Slovakia,
South Africa, Spain, Sweeden, Tunisia and USA.

Plant:
Çerkezköy - Türkiye

Design Offices:
Biella-İtalya and Çerkezköy-Türkiye

Export Countries:
Australia, Austria, Azerbaijan, Belarus, Bosnia, Bulgaria,
Canada, Croatia, Czech Republic, China, Denmark, England,
Egypt, Estonia, Finland, France, Germany, Greece,
Holland, Hong Kong, Hungary, India, Indonesia, Iranian,
Israel, Ireland, Italy, Japan, Jordan, Lebenon, Lithuania, Macau,
Malta, Mexico, Moldova, Morocco, Poland, Portugal, Romania,
Russia, Serbia, Slovakia, South Korea, Spain, Sri Lanka, Sweden,
Switzerland, Thailand, Tunisia, Ukraine, USA and Vietnam

Agencies and representation offices over 20 countries

Number of Employees Average

1.057

More than 400 customers, exporting to more than 50 countries worldwide

CONTENT


YÜNSA

AGENDA

1. Opening and election of Chairman's Panel.
2. Reading and discussing the Annual Report of Board of Directors for the year 2017.
3. Reading the Auditors' Report for the year 2017.
4. Reading, discussing and approval of the financial statements of the year 2017.
5. Releasing Members of Board of Directors due to their activities in 2017.
6. Determination the method of use, distribution ratio and earning share rates of the profit for the year 2017.
7. Election of the Board Members and determination of their mission time.
8. Determining the monthly gross fees of the Board of Directors.
9. Election of the Auditor.
10. Informing General Assembly about the aids and donations provided in 2017.
11. Determination of the limit of the donations to be made by the company in the year 2018.
12. Authorization of Chairman and Board Members to conduct in the transactions listed in Articles 395 and 396 of Turkish Code of Commerce.

MESSAGE FROM THE CHAIRMAN

Dear Stakeholders;

In today's market conditions, change takes place very rapidly and therefore it is critical for companies to adapt to such changes and take required actions timely. It is with this approach that Yünsa implemented its reorganization strategies in 2017 and achieved permanent success in recycling. In addition, our Company also reinforced its leading position in terms of exports.

As one of the top five upper-segment woolen fabric exporters globally, Yünsa took significant steps in increasing its current market share and competence. With support from its efficient financial structure and manufacturing capacity, our Company continued to improve its rapid-response muscles and flexible product portfolio in 2017. In addition to commercial objectives, Yünsa now aims at global leadership in its industry. Planning all operations in line with this vision, Yünsa will continue to grow by managing its business capital effectively and by benefitting from digital opportunities and it will continue to offer innovative and distinguishing products and services in 2018 as well.

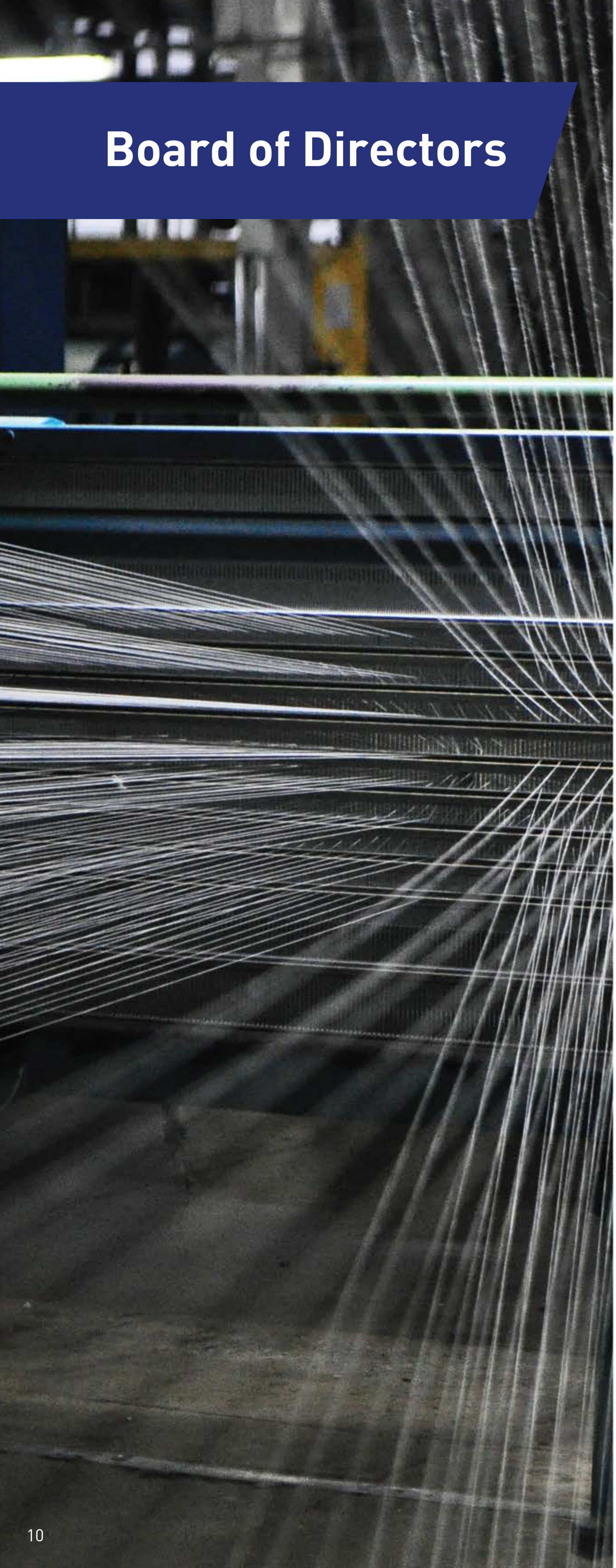
The financial success we achieved in 2017 with support from our employees and our esteemed stakeholders creates value not only for our Company, but also for our country. Wishing continued success to all of us in the future, on behalf of the Yünsa family, I extend my gratitude for your valuable contribution.

Respectfully,

M. Hacıkamiloğlu

Mehmet HACIKAMİLOĞLU
Chairman of the Board
Yünsa

Board of Directors



Mehmet HACIKAMİLOĞLU
Chairman of the Board of Directors (Executive)

Having graduated from the Civil Engineering Department at Boğaziçi University in 1993, Mehmet Hacıkamiloğlu completed the Executive MBA program at Sabancı University in 2001. He worked as field engineer at Üstay İnşaat from 1992 to 1993 and joined the Sabancı Group of Companies in 1993, where he worked in Betonsa first as Ready-Mixed Concrete Plant Supervisor and then Investment and Planning Supervisor. He was Strategy Development and Planning Manager at Akçansa from 1997 to 1999 and General Manager at Agregasa from 1999 to 2001. Then he worked as Finance Coordinator at Akçansa in 2001-2003. He was appointed Assistant General Manager for Financial and Administrative Affairs at Çimsa in 2003. Having been appointed General Manager of Çimsa on 1 July 2006, Mehmet Hacıkamiloğlu became Akçansa General Manager on 1 September 2014. On 17 February 2016, Hacıkamiloğlu was appointed Strategic Business Unit (SBU) President for Cement at Sabancı Holding and following the decision to merge SBU Cement with SBU Industry under the roof of SBU Industry, he was appointed SBU President for Industry on 21 April 2016.

Eren MANTAŞ
Deputy Chairman of the Board of Directors (Executive)

A graduate of Business Administration at Boğaziçi University, Eren Mantaş received his MBA degree from the University of California at Berkeley. He started his career as auditor at Arthur Andersen in 1997 and continued in the same organization as corporate financing consultant. He was based in Napa, California from 2002 to 2004, working as Project Finance Manager at Actus Lend Lease. He was Strategic Planning Manager and later Strategic Planning and Finance Director at Teknoloji Holding and Brightwell Holdings respectively between 2005 and 2011. He is Financial Planning, Analysis and Investor Relations Director at Sabancı Holding where he has been working since 2012. He is the Vice General Manager of Çimsa since May 2017.

Gökhan EYİGÜN

Board Member (Non-executive)

During his approximately 20-year career, Gökhan Eyigün acted as manager in projects and operations in a number of different industries in the areas of corporate financing, strategy and corporate business development. He started his career at Arthur Andersen and offered consultancy services mainly in Corporate Financing. Thereafter, he worked for Price Waterhouse Coopers, where he built up Corporate Finance and M&A departments as the unit manager. He has been working for Sabancı Group in different managerial levels since 2007. Currently, he is the director of Strategy and Business Development at Sabancı Holding. He graduated from Istanbul Technical University, department of Business Administration Engineering in 1998 with honors. He had his master degree from Rotterdam School of Management in 2002-2004 and received several management courses from Harvard Business School.

Fabio FOSCHI

Board Member (Non-executive)

Fabio Foschi completed his graduate studies in Chemical Engineering in 1980 at the University Politecnico di Milano. He started his career at Grace, a chemical company based in Germany, and assumed various roles there, the last of which was Sales and Marketing Director, EMEA. After his international experience, Foschi returned to Italy in 1998, and served in senior management positions in public and family enterprises such as FIAMM (automotive parts, Director), Montefibre (chemical fibers, Director), Miroglio (textiles and fashion, General Manager), and Fratelli Piancenza SpA (textiles, fashion and retail, General Manager and CEO). He has been an executive since 2012 at a consulting company, of which he was the founding partner in 2003. Throughout the years, he has been the Board Member of various companies and worked in the Board of Directors of "Biella Master of Noble Fibers" from 2011 to 2015. Since the academic year 2012-2013, he teaches "Management of Fashion Companies" at IED-Fashion School in Milan.

Hüsnü PAÇACIOĞLU

Board Member - (Independent)

Hüsnü Paçacıoğlu got his BSc in Industry Management at Middle East Technical University in 1963. Between 1964-1968 he served as an Investment Specialist at Karabük Iron and Steel Works Enterprises. Between 1968 and 1996 her worked at IBM Turk as Government Affairs and Ankara Regional Manager, Public Sector Sales Director, Professional and Technical Services Manager and Deputy General Manager in charge of Marketing, Sales, Products and Services. Hüsnü Paçacıoğlu was assigned as the General Secretary of Sabancı University in 1996 until 2005. Between 2006 and 2011, he served as Vice President of Board of Trustees, Vice President of the Executive Board, and General Manager of Hacı Ömer Sabancı Foundation (Sabancı Foundation). Since 1 July 2011, he continues his duties at Sabancı Foundation Board of Trustees and Executive Board, except for the duty of General Manager.

Mehmet KAHYA

Board Member - (Independent)

Mehmet Kahya had double major at Yale University Chemical Engineering and Economics departments and MBA on Finance, Marketing and Operations Research at Kellogg Graduate School of Management. He started his career as Sasa Management Services Chief in Sabancı Holding and then founded and presided MKM International (Netherlands) and Sibernetik Systems. After joining Sabancı Holding again as Vice President of Automotive Group, he assumed the roles of Temsa Vice President and President, member of Planning and Steering Council, Toyotasa Vice President as well as Board Member of Toyotasa, Temsa, Susa, and Sapeksa. Mehmet Kahya then served as Managing Member and Vice Chairman of Carnaud Metalbox, President of Uzel Machinery and Executive Board Member of Uzel Holding, Vice President of DYO General Directorate and Paint Group, Member of Executive Board of Sarten Packaging, Vice Chairman of Gierlings Velpor (Portugal), and President of Assan Aluminum. Currently contributing as a consultant for strategy, restructuring, profitability transformation, growth, M&A projects at KRONUS, of which he is a founder, Mehmet Kahya also holds Board Memberships at Çimsa, Carrefoursa, Yünsa, and Electrosalus and also serves as a consultant for shareholders at Makel Elektrik, Enerjeo and Gediz Energy.

VISION

To grow by making a difference in textile products
& services and be a global power

MISSION

To be a leader organization to create value and be preferred
for its pioneering and challenging approach in
different areas of textile

MESSAGE FROM THE CEO

Dear Stakeholders;

In parallel with the positive developments witnessed in the textile industry in 2017, the industry started to grow especially in international markets. Looking at the exportation figures of textile products and raw materials, we see that our industry grew by 3%. I am proud to announce that, with the contribution of such positive developments, Yünsa successfully achieved higher net sales revenues and profitability than the industry averages last year.

Today, in addition to 4,500 tons of worsted yarn, we also have 12.5 million meters of woven fabric capacity per year. With more than 1,000 employees, we manufacture fabrics 24/7 and 350 days a year. As of 2017, global textile market reached a capacity of around 190 million meters and Yünsa manufactured approximately 5% of this capacity. Building on this success, we aim to penetrate into new markets and continue our growth in exports in 2018.

We, as Yünsa, not only create value for the national economy through direct investments and employment, but also operate in line with an environment-friendly and sustainable business model. With our standards and projects based upon most efficient use of natural resources, we consider sustainability as a basic principle and implement this principle in all of our business processes. In 2017, we reinforced our leading role in the industry by getting B score in both CDP Turkey Climate Change Program and CDP Turkey Water Program.

On the other hand, we invested approximately TL 38 million in R&D in the last 7 years. Having developed 293 new products in 2017, we set the goal of exceeding this number in 2018.

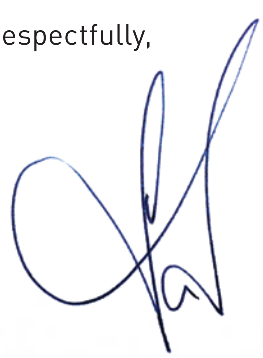
Through well-controlled management of our reorganization process, we created a healthy organizational structure in 2017. Prioritizing business capital management, we focused on eliminating inefficient practices within the business. By extending the "Total Productive Management" practices to the whole Company, we increased our productive manufacturing performance. In addition, we completely ended low-profit sales for filling the capacity gaps and achieved profit-oriented sale targets.

Looking at the financial results of 2017, we see that our revenues increased from TL 247 million to TL 297.6 million and two thirds of this revenue came from exports. We managed to improve our net profit from TL 34.1 million net loss in 2016 to TL 14.8 million net profit in 2017. In terms of operating profits, despite TL 16.8 million loss in 2016, we earned TL 43.5 million profit and achieved a total operation profit increase of TL 60.3 million. We, as Yünsa, increased our exports revenues by approximately 19%, from TL 167 million to TL 199 million.

Pursuing global leadership in the industry, Yünsa is the biggest player in Turkey's woolen fabric exports with its product collections based upon intercontinental fashion trends and customer expectations, its solution-oriented approach, and fast and innovative products with high added value. We are the largest integrated woolen fabric manufacturer under a single roof in Turkey and Europe. As Yünsa, we continue to create value for our country and all of our stakeholders, with the support of our employees.

Hoping our success will further increase in the future, I would like to extend my gratitude to our employees who are the major contributors to success with their devoted efforts, to our shareholders who maintain their trust and support, and to all stakeholders who continue to walk together with us.

Respectfully,



Nuri Refik DÜZGÖREN
CEO
Yünsa

Top Management Team

Nuri Refik DÜZGÖREN
CEO

Born in 1959, Nuri Refik Düzgören graduated from Middle East Technical University (METU) Chemical Engineering Department. He received his MBA degree at Sabancı University. He was appointed as CEO on 1 May 2017.

Semih UTKU
Director - CFO

Born in 1962, Semih Utku graduated from the University of Baltimore with a BS degree in Business Administration-Finance. He joined our company on 1 June 1999 and he has been working as CFO since 1 January 2000.

Bora BİRGİN
Director – CSMO

Born in 1973, Bora Birgin graduated from the University of Nottingham, Department of Industrial Economics. He received his Master's degree at the University of Manchester Institute of Science and Technology (UMIST). He has been working for Yünsa since 19 March 1998 and was appointed as CSMO on 12 July 2010.

Hakan KONUŞKAN
Director – Supply Chain Management

Born in 1968, Hakan Konuşkan has an Industrial Engineering degree from Boğaziçi University. He has been working for Yünsa since 1 November 1993 and was appointed as the Director of Supply Chain Management on 15 September 2017.

Engin SARIBÜYÜK
Director – Operations

Born in 1981, Engin Sarıbüyük graduated from Ege University, Department of Textile Engineering. He got his MBA degree from Sabancı University in 2011. He has been working for Yünsa since 27 December 2005 and was appointed as the Director of Operations on 15 September 2017.

Milestones

1973
Establishment of Çerkezköy Plant

1976
Production commenced

1980
Menswear wool fabric and carpet production commenced

1989
Çerkezköy design office is opened

1990
Yunsa is publicly offered

1997
Computerized design starts to be used for the first time

2007
Yunsa UK office is opened

2008
Yunsa USA office is opened

2009
Yunsa Germany office is opened

Certified by M&S Fabric Test Accreditation

Participation in Turquality® Program

2010
Yunsa R&D Center is opened

First and sole reporting in Textiles to CDP Turkey Climate Change Program

2011
Certified by Hugo Boss Accreditation

2012
Total Productivity Management (TPM) commenced

Received R&D Center Award

1998
Womenswear fabric production is commenced

Certification by ISO 9001 Quality Management System Certificate

2002
Italy/Biella design office is opened

2003
Upholstery fabric production is commenced

2004
Certification by ISO 14001 Environmental Management System Certificate

2005
Fabric for uniform dressing production is commenced

2006
Certified by Eko-Tex 100 Certificate

2013
Certification by ISO 50001 Energy Management System Certificate

2014
Productivity Awards Championship
Launch of Yünsa Touch Collection

2015
Launch of Yünsa Premium Collection

Leadership of textile industry on CDP Turkey Climate Change Report

2016
Certified by OHSAS 18001

Certification by ISO 27001 Information Management System Certificate

2017
Leadership of Textile Industry on CDP Turkey Water Program

PRODUCT GROUPS

Menswear Fabrics

Yünsa, the leader of the woolen fabric production in menswear exhibits two different trend creating collections every year with its international knowledge and experience. Supply its 100% wool and composition fabrics to over 50 countries.

Womenswear Fabrics

Among the leader companies of the world in womenswear; Yünsa presents its collections to customers, with designs elegant and distinguished style forming trends, innovative ideas, advanced technical knowledge and, wide-range of colors. Womenswear collection is composed of woolen and composite fabrics.

Upholstery Fabrics

Yünsa presented upholstery fabrics compositions in various patterns shaping with demands of customers in 2003, maintains its success on this field. Yünsa upholstery fabrics are mostly being used in, household linens products such as sofa and curtain, office furniture, special projects such as hospital, hotel, theater, airport, and restaurants and, in transportation sector such as automobile, autobus, airplanes and sheep upholsteries.

Fabrics for Corporatewear

Yünsa which produces its fabrics for corporatewear with the knowledge and experience gained in menswear fabrics, presents its value added fabrics to its international customers with perfect service insight.

Yünsa Touch

Yünsa has prepared its collection with modern and innovative style and carried out its successs on woolen fabrics to cotton fabrics by Yünsa Touch collection. Yünsa Touch collection which is launched in 2014 is consisted of cotton and, composite fabrics.

Yünsa Premium

Yünsa Premium collection is consisted of high quality fabrics that are, prepared parallel to sustainable and profitable growth strategy and launched in 2015 to serve A/A+ customers.

RESEARCH AND DEVELOPMENT

We developed
293 new products
in 2017.

Research and Development

In order to increase competitive power, reinforce the leading position in the global textile trade, increase the share in exports, and improve social welfare, our Company aims to reach new markets and customers through fast and innovative products with high added value, while also maintaining adaptation and implementation of high technologies. The major elements in achieving this aim are to attach importance to innovation, constantly develop up-to-date know-how and technology, and use these technologies in the most efficient way. Our Company established its R&D Center in 2010 for the purpose of implementing continuing and planned R&D projects in collaboration with universities and research centers, of creating a constant innovation culture together with employees, and of leading the industry in learning and developing new technologies.

The textile industry faces challenging competition and players may lose ground and market share. Under such conditions, Yünsa continues to implement modernization and improvement practices to increase product quality and cut industrial costs, while also maintaining sales and marketing operations to protect its market position through high-quality and differentiating products with high added value and short delivery times.

In today's highly competitive environment, conducting technology and innovation practices systematically and developing innovative products with high added value to reach new markets and new customers is a must.

Having completed its 7th operational year in 2017, Yünsa R&D Center benefits from its 8-year experience to reinforce the Company's competitive power, increase our brand value, and act as a motivational power for all stakeholders with its efforts to solve chronic problems in manufacturing processes.

Yünsa R&D Center created a sustainable, leading and creative environment where innovative ideas in line with company objectives are turned into projects in collaboration with universities.

In order to reinforce and increase collaboration with universities, Yünsa R&D Center started to sign mutual protocols in 2014 and continued such protocols in 2017 within the scope of University-Industry Collaboration (USI). These protocols cover joint research and development projects as well as open innovation meetings, internships for students, laboratories, events, subscriptions to publications, and technical tours. The Company signed collaboration protocols with 10 universities and an applied-internship training protocol with 1 university.

Yünsa R&D Center organizes seminars at the Company, with the participation of experts, academics or industry representatives. The goals of these seminars include getting information on new technologies, raising awareness on certain issues, and listening to the comments of our suppliers and customers. In 2017, Yünsa R&D Center held 2 technical seminars with the participation of expert academics, namely "Multi-Purpose Wide-Spectrum Product Manufacturing with Electrospinning Technique" and "Smart Textiles" trainings.

In cooperation with universities, Yünsa R&D Center also supports SMEs in increasing their R&D capacities by creating new business opportunities for them through research-based projects that will generate authentic products and methods. In addition to SMEs, global collaboration practices also continue.

3 projects within the TEYDEB (Technology and Innovation Funding Programs Directorate) 1501 category supported by the Scientific and Technological Research Council of Turkey (TÜBİTAK) were completed successfully in 2017. Thus, number of successful public-supported projects within the R&D Center portfolio increased to 23. There is also an ongoing Horizon 2020 project supported by the European Commission.

Yünsa R&D Center's strategy to transform the conclusions of its projects into scientific publications also continued in 2017. The article entitled "Research on Static Electricity Level Based Upon Woolen and Wool-Mix Fiber, Machine Speed and Blend" was published in 2017 in the national magazine Tekstil ve Mühendis (Textile and Engineer).

Signing protocols to enhance Public-Industry collaboration, Yünsa continued to offer business opportunities to undergraduates. The company contributed to successful completion of 7 undergraduate dissertations. 1 dissertation titled "Achieving Ageing Effect in Dyed Woolen Fabrics through Ozone Technology" is still in progress.

With the projects implemented in the R&D Center, 2 international patent applications were made in 2017.

Yünsa R&D Center operates in compliance with the Law Nr. 5476 on Support of Research and Development Activities that supports creating technological know-how to enable the national economy to compete at an international level, enabling innovation in products and production processes, improving product quality and standards, increasing productivity, reducing production costs, and commodifying technological know-how. Within the scope of this Law, Yünsa benefited from the reduction incentive of income tax on R&D Center personnel income, revenue stamps, Social Security Institution (SGK) employer share, R&D Center personnel salaries, and R&D in 2017. Within the scope of the projects carried out at Yünsa R&D Center, incentives were received from TÜBİTAK and Republic of Turkey's Ministry of Industry and Technology.

Table 1.
Dissertations that Yünsa contributed in 2017

Title	University	Publication	Date
Achieving worsted yarns with various levels of dye intake through chemical modification and manufacturing worsted fabric with various effects by using these yarns in the same fabric	Namık Kemal University Çorlu Faculty of Engineering	Undergraduate Dissertation	January 2017
Comparison of qualities of high-performing core yarns manufactured with ring compact siro spinning systems	Namık Kemal University Çorlu Faculty of Engineering	Undergraduate Dissertation	January 2017
Could natural dyes become alternatives to synthetic dyes? Performance evaluation by way of madder	Namık Kemal University Çorlu Faculty of Engineering	Undergraduate Dissertation	June 2017
Energy saving through heat recovery at the stenter machinery used in the textile industry	Namık Kemal University Çorlu Faculty of Engineering	Undergraduate Dissertation	August 2017

As a result of projects carried out at R&D Center, Yünsa applied for 3 patents in 2017. In accordance with Yünsa's strategy, the practice of transforming R&D Center's project conclusions to scientific publications continued in 2017. Details are given in Table 2.

Table 2.
Articles/papers that Yünsa contributed in 2017

Title	University	Publication	Date
Research on recovery of wastewater with advanced treatment technologies and reuse in manufacturing processes in woolen textile industry	İstanbul Technical University MEMTEK Proceedings of Membrane Technologies and Implementations	Proceedings	April 2017
Energy and economic analysis of heat recovery exchanger design for stenter	Türk Tesisat Mühendisleri Derneği Magazine	Article	July-August 2017
Research on static electricity level based upon woolen and wool-mix fiber, machine speed and blend	Tekstil ve Mühendis Magazine	Article	September 2017
Developing an automation system that determines amount of blending oil in yarn production	UÇTEK-National Çukurova Textile Congress	Proceedings	28-29 September 2017
Metal wire reinforced corn yarn production for heating	UÇTEK-National Çukurova Textile Congress	Proceedings	28-29 September 2017

Yünsa R&D Center operates in compliance with the Law Nr. 5746 on Support of Research and Development Activities that supports

- creating technological know-how
- enabling innovation in products and production processes
- improving product quality and standards
- increasing productivity
- reducing production costs
- and commodifying technological know-how.

to enable the national economy to compete at an international level. Within the scope of this Law, Yünsa benefited from the reduction incentive of income tax on R&D Center personnel income, revenue stamps, Social Security Institution (SGK) employer share, R&D Center personnel salaries, and R&D in 2017. Within the scope of the projects carried out at Yünsa R&D Center, incentives were received from TÜBİTAK and Republic of Turkey's Ministry of Industry and Technology.


ENVIRONMENT

We are
the industry leader
in CDP Turkey Climate Change
and Water Programs.

In addition to its contribution to the national economy and wide-scope employment opportunities, Yünsa also acts responsibly towards the environment, which is an indispensable value for the world. It supports environmental sustainability with the projects it develops, the standards it implements, and the projects to use natural resources in the most efficient way.

CDP (Carbon Disclosure Project)

Yünsa demonstrated its responsible approach to climate change and disclosed its greenhouse gas emissions publicly through CDP.

Mitigating negative impact on climate change has become a significant goal in the Company's "evaluation of risks and opportunities" practices. By focusing on climate change practices for a more livable world, the Company has created working programs based upon strategic and systematic management as well as upon environment-friendly projects.

Since 2010, Yünsa has been publicly disclosing its efforts towards mitigating negative impact on climate change and its adaptation practices through CDP programs. By reporting its greenhouse gas and water management systems and projects, Yünsa got "B" scores in both CDP Turkey Climate Change and CDP Turkey Water Programs in 2017. Thus, Yünsa further improved its leading and competitive position and maintained its international success in the protection of environment.

ISO 14001 Environmental Management System

Yünsa has been implementing ISO 14001 Environmental Management System since 2004. In this context, our Plant's impact on the environment is evaluated and measures are being taken for the mitigation/elimination of such impacts.

Eko-Tex® Standard 100

Eko-Tex ® Standard 100 is a worldwide standard testing and certification system for raw materials at all stages of process as well as for intermediate and final products in the textile industry. Aiming to offer perfectly healthy products to its customers, Yünsa renewed its Eko-Tex ® 100 certification in 2017. In our production processes, no prohibited chemicals are used and we maintain our responsible approach by cooperating closely with our suppliers in this regard.

Waste Sorting

All wastes that are generated during Yünsa's operations are sorted and sent to licensed disposal and recycling institutions.

Clean Production

Yünsa prepared a Clean Production Plan in 2017 and continued its operations in line with this plan. Within the scope of the plan, the best production methods are identified and applied to minimize environmental damage. In this regard, an R&D project to treat and reuse wastewater is being implemented.

Use of Natural Resources

Yünsa has completed its R&D projects to optimize the use of natural resources and reduce environmental impact. With these projects, energy and water consumption has been reduced. New projects have been identified for future energy and water savings and required investments have been launched.

Environmental Trainings

"Single Point Training" environmental awareness trainings continued in 2017 with the aim of increasing awareness of workers on this issue. In addition, all new employees are informed about our Plant's environmental practices and all environment protection rules to be observed.

Awareness-Raising in Waste Disposal Companies

Every year, waste disposal companies that Yünsa works with are assessed in terms of OHSAS 18001 Occupational Health and Safety, ISO 9001 Quality, and ISO 14001 Environmental Management Systems as well as environmental legislations. Areas for improvement are identified and companies are encouraged to take actions on deficiencies.

ISO 50001 Energy Management System

Due to the increasing importance of energy and energy management, energy efficiency has become an even more critical issue. Therefore, Yünsa accelerated its energy efficiency practices and had these practices certified by ISO 50001.

HUMAN RESOURCES

We delivered an average of
30 hours training
per employee in 2017.

Yünsa is perfectly aware of the fact that the most valuable asset in achieving sustainable success is the employees. In this regard, it is the major objective of the Company to create an inclusive, participative, entrepreneurial culture that values diversity and creativity through solutions and practices aimed at the organization's current and future needs.

Our Human Resources principles are based upon providing a working atmosphere that perpetuates ethical values, offers mutual trust, embraces responsibilities, appreciates success, respects diversity, pays attention to opinions and expectations, protects balance between business and private life, and implements policies and practices that go beyond legal requirements.

In a globalization process that attaches more importance to investments in human capital rather than products and services, our Human Resources department operates in line with the Company's mission, vision and strategies and works to continuously improve processes to achieve sustainability.

Our recruitment process aims to select and place candidates who will carry our company to the future, adopt our company values and possess talents that are the most suitable for the job. Structured competence-based interviews, personality inventories, foreign language tests, role plays, case studies, presentations, and talent tests are employed in the selection process to ensure a systematic and objective approach and to match the right candidate with the job.

We aim to evaluate employee performance objectively within the framework of common principles and we devise systems to evaluate performance in line with measurable goals.

We render long-term strategies and objectives of the Company to operational level and monitor performance through Balanced Scorecards. The Company's objectives and functional targets are monitored with this Balanced Scorecard approach. With the individual performance management, we aim to render function targets into individual targets, evaluate employees by using accurate and objective criteria, create motivation for breeding results, and establish a culture of constant development.

As the outcomes expected from different positions may differ, individual performance evaluation is made according to

• The level of success in reaching given job targets for white-collar employees,
• The performance criteria focusing on work discipline, individual business outcomes (Key Activity Indicators – KAI), and team/department business outcomes (Key Performance Indicators – KPI) for blue-collar employees.

Our Career Planning and Backup process identifies prospect employees; offer opportunities for required occupational know-how, talents and development; and helps employees prepare for roles that require further responsibilities. Thus, critical roles within the Company are backed up efficiently and sustainable performance is achieved.

We implement recognition, appreciation and rewarding systems to exhibit and encourage successes, behaviors and efforts to contribute to our Company's goal of becoming a world leader and to improve motivation and loyalty to the Company.

In order to understand our employees' perception and opinion on Company practices, we hold Employee Loyalty and Satisfaction Surveys and we benefit from the feedback to review our practices. The goal is to identify strengths and benefit more from these areas, to identify areas for development, and to achieve progress by implementing action plans for development.

Continuous Development Practices

Implemented in line with the Company's strategy and objectives, Continuous Development Practices comprise four main areas - Leadership, Talents, Professional Development, and Self-Improvement.

Development programs are implemented according to target employee groups and the goal is to contribute to developing corporate know-how, talents and competence.

We employ full-time technical coaching to improve operators' competence. With these profession-based continuous development practices in target areas, we aim to continuously develop know-how and talents of operators and help them gain multi-talents. Operators' development levels can be monitored on the ERP system and individual development needs can be identified separately.

Our training and development practices are based upon the fact that "employees" are our most valuable assets. Our Internal Trainer practice aims to make efficient use of internal resources and to support employee development and motivation.

In addition to Professional Internship and Apprenticeship practices, we implement "Project Internship" for university students and offer successful students the opportunity to have 3-month project-based internship at our Company. Thus, we not only give young talents the opportunity to experience business life, but also support winning these talents.

SALES AND MARKETING


We get high scores in
environmental and social compliance audits of our
global customers.

Yünsa, the leading woolen fabric producer of Turkey and Europe, continuous its efforts to realize its vision of becoming a global leader in the industry and to maintain and further develop its position as a preferred brand in production, service quality, swiftness, and flexibility.

Yünsa continued to work for the goal of unconditional customer satisfaction with its rich collections that meet the needs and expectations of customers, powerful design team, ability to serve all around the world, strong international sales network, and service flexibility offered to customers.

In the current global competition environment where customers steer the market and where not only fair price, but also high quality, rapid production and swift delivery ability are more significant than ever, Yünsa differentiates itself from competitors with its right marketing strategies, creative and unique product concepts, and agile structure.

Today, Yünsa works with more than 400 customers over its strong international sales network and exports goods to more than 50 countries. Yünsa has subsidiaries in the USA, Germany, UK, and Italy as well as agencies and representatives in more than 20 countries.

Attending the biggest and most important fashion and textile fairs from New York to London, Munich and Paris in 2017, Yünsa demonstrated both its brand and the point that the Turkish textile reached at the most important platforms of textile and fashion world. By participating in Turquality®, the first and only government-supported branding program in the world, Yünsa exhibits the power of a Turkish brand to the global fashion and textile industry with Turquality®.

Operations

Operations

OPERATIONS OF THE COMPANY AND SUBSIDIARIES

Company operations and significant developments in regard to these operations are briefly presented below. In addition, detailed information is given in the footnotes of the Descriptive Report for the Consolidated Financial Statements Audited Independently for the fiscal period of 1 January-31 December 2017.

Developments in Investments

Below are the total values of the subsidized investments for domestic and imported goods in 2017 as per the dates and numbers of the incentive documents received from the Ministry of Economy's General Directorate of Incentives Implementation and Foreign Direct Investment.

Investments of USD 602,000 in accordance with the Investment Subsidy Certificate C-112140, dated 28 January 2016; USD 125,000 in accordance with the Investment Subsidy Certificate A-122715, dated 11 February 2016; and USD 99,000 in accordance with the Investment Subsidy Certificate A-122455, dated 28 January 2016 were made. The total amount of subsidized investments of 2017 is USD 825,000.

Taking into consideration other unsubsidized investments, the total value of the Company's investments in 2017 reached approximately USD 1.1 million on a USD basis and TL 4 million on a TL basis.

Internal Control and Audits

The Company houses an Internal Audit Unit for conducting audits, investigations and examinations in order to safeguard the rights and interests of the Company and to make suggestions against internal and external risks.

Periodically, the Internal Audit Unit reports directly to the Audit Committee composed of Independent Board Members under the Company organization due to its independency principle and performs the duties assigned by the Board of Directors under the current Audit Committee Bylaw. The internal audit mechanism is within the responsibility of top management and is reviewed regularly by the Internal Audit Unit of the Company.

The duties of the Internal Audit Unit include checking the reliability and accuracy of financial statements of the Company and subsidiaries, ensuring that operations are performed in compliance with laws and ethical rules adopted by the Company, assuring to minimize the current and potential risks to the reasonable levels by having them identified through process analyses to increase the operational effectiveness and productivity, and controlling whether the internal operations are carried out in accordance with the predefined standards, policies and targets.

Information on Subsidiaries and Shareholding Ratios

Yunsa Germany Gmbh

The trade name of Exsa Deutschland Gmbh, in which Yünsa has 100% partnership share, was changed to Yunsa Germany Gmbh in 2009. The company was founded to organize and implement marketing and sales operations in Germany and neighboring regions.

Yunsa UK Ltd.

Yunsa UK Ltd., in which Yünsa has 100% partnership share, was founded in Leeds, UK in 2007 to implement marketing and sales operations of Yünsa products.

Yunsa USA Inc.

The trade name of the company in which Yünsa has 100% partnership share was changed to Yunsa USA in 2009. The company organizes and implements marketing and sales operations in the United States.

Yunsa Italia S.r.l.

Yunsa Italia S.r.l., in which Yünsa has 100% partnership share, operates in Biella, Italy, as a fabric design office.

Yünsa Yünlü Sanayi ve Ticaret AŞ İstanbul Atatürk Airport Free Zone Branch

Yünsa Yünlü Sanayi ve Ticaret AŞ İstanbul Atatürk Airport Free Zone Branch was registered at the Office of İstanbul Trade Register on 28 August 2008 and has been continuing its operations since.

Other Issues Related to Operations

Information on Ongoing Significant Claims Filed against the Company and Their Probable Results
There were no claims filed against our Company that might have significant impact on the Company's financial state and operations.

Information on Significant Administrative Sanctions and Penalties against the Company and Board Members due to Practices against the Provisions of the Legislation
There were no administrative and legal sanctions against the Company and Board Members due to practices against the provisions of the legislation in 2017.

Donations
The Company did not make any donations in 2017.

Information on the Company's Acquisition of Own Shares
The Company did not acquire any shares of its own.

Privileged Shares, Voting Power of the Shares
According to Articles of Incorporation, shareholders have one voting right for each share at the General Assembly meetings and there is no privilege for right to vote.

Shareholders use their right to vote proportional to their shares' total nominal par pursuant to Article 434 of Turkish Commercial Code.

Capital Market Instruments Brought Out If Any
There were no capital market instruments brought out during the term 1 January-31 December 2017.

Articles of Incorporation Amendments for the Term
Articles of Incorporation were not amended during the term.

Information on Private and Public Audits
There were no private or public audits in our Company during the term 1 January-31 December 2017.

Change of Independent Audit Company
At the General Meeting of the Shareholders on 29 March 2017, it was decided by the shareholders that KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ (Member of KPMG International Cooperative) shall become the independent audit company in line with the suggestions of the Audit Committee and Board of Directors in accordance with the principles specified by Turkish Commercial Code Nr. 6102 and Capital Market Law Nr. 6362, for auditing the financial reports of the Company for fiscal year 2017 and conducting other operations within the scope of other relevant provisions of these laws.

Collective Labor Agreement Practices
24th Term Group Collective Labor Agreement signed between the Turkish Textile Employers' Association (TTSİS), of which we are a member, and the Turkish Textile Weaving and Clothing Industry Workers Union (TEKSİF) is in effect between 1 April 2016 and 31 March 2019.

Rights and Benefits Provided to Personnel and Workers
Within the scope of our work valuation and remuneration policies, we provide several opportunities to our employees, including base salaries, premiums, variable premiums based upon performance, private health insurance, private pension support, accident and life insurance, annual and social leaves exceeding the legal obligation. Such practices also include vehicles allocated to chair, initiatives regarding use of several communication devices, additional benefits for the personnel with master's and PhD degrees.

In addition, we provide wages, rights and social aids to our workers who are members of the agreed labor union within the frame specified in the collective labor agreement.

Other
Objectives and annual performance of our Company are discussed at the Ordinary General Assembly held within the year and the information and evaluations regarding the Company and the market it operates in are shared with our partners. There was no Extraordinary General Assembly held in 2017.

Pursuant to the Article 199 of the Turkish Commercial Code Nr. 6102, information on subsidiaries of Yünsa Yünlü San. ve Tic. AŞ, controlling shareholder, and all the purchase-sale and other transactions between the controlling shareholder and subsidiaries have been provided.

The transactions performed comply with the peers, in line with the controlling shareholder commentaries within related Articles of the Turkish Commercial Code Nr. 6102 and since it is included in the group of companies, there is no loss suffered.

The report prepared by Board of Directors of Yünsa Yünlü Sanayi ve Ticaret AŞ on 15 February 2018 concludes that, within the scope of the responsibility attached to the Board of Directors pursuant to the Article 199 of the

Turkish Commercial Code Nr. 6102, all required legal transactions were performed and all required measurements were taken in all the transactions performed between subsidiaries of Yünsa Yünlü San. ve Tic.AŞ controlling shareholder and subsidiaries in 2017.

Identifying the Distribution Method of 2017 Profit/Loss

According to consolidated financial tables of fiscal year 1 January 2017–31 December 2017 prepared by our Company pursuant to the Communique on Principles of Financial Reporting in Capital Markets with Series Nr. II-14 of Stock Exchange Commission and independently audited by KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ, a net profit of TL 14,848,822 was earned in the period. However, as it has been observed that distributable profit did not arise due to previous losses, it has been decided that shareholders shall be informed that there shall not be any profit distribution in the fiscal year 2017 in accordance with the regulations of the Capital Markets Board on profit distribution and that the issue shall be submitted to the approval of the General Assembly.

Financial Status

Detailed information on the Company's financial status is given in the Descriptive Report for the Consolidated Financial Statements Audited Independently for the fiscal period of 1 January-31 December 2017 and in the Report's footnotes.

Annual financial status reports of the company are presented to Sabancı Holding Industry Group Chairman by the CEO and the CFO. At the regular meetings of the Board of Directors, Board Members are informed on operating results and financial outcomes, realization rate of the planned operations and the Company's position against the specified strategic objectives are explained.

Developments in Turnover and Operating Profits		December 2017
Turnover	(TL)	297.580.363
Gross Profit	(TL)	72.062.131
Operating Profit		43.531.080

Breakdown of Production in 2017		December 2017
Worsted Yarn	(Tons)	2.418
Fabric Finishing	(Km)	8.019

Breakdown of Sales Revenues in 2017		December 2017
Textile	(TL)	282.190.212
Ready-to-wear	(TL)	15.390.151

Basic Ratios	2015	2016	2017
I-Financial Structure Ratios			
Total Liabilities/Total Assets (%)	0,71	0,82	0,73
Equities/Total Assets (%)	0,29	0,18	0,27
Borrowing Rate (%)	2,41	3,46	2,75
II- Liquidity Ratios			
Current Ratio (%)	1,14	1,21	1,01
Acid-Test Ratio (%)	0,55	0,56	0,52
III- Profitability Ratios			
Gross Profit Margin (%)	%22	%13	%24
Net Profit Margin (%)	%2	%-14	%5
Earnings per Share	%0,17	%-1,17	%0,51

Risk Management and Internal Control Mechanism

Risk management and internal control mechanism is implemented at every level of the Company.

Believing that risks also involve opportunities, Yünsa carries out company-wide Corporate Risk Management in order to manage the risks in the most effective manner. Yünsa Corporate Risk Management is a well-planned, compliant, consistent, and ongoing process structured within the Company to identify the factors creating threat and opportunity in achievement of company targets and to decide upon and implement the measures and strategies against these.

Company risks are monitored through main risk indicators as specified by the Company. These indicators are continuously followed and periodically reported. Necessary actions to manage the risks as indicated by the main risk indicators are taken by the Company. The Board of Directors is periodically informed on such risks by the Early Detection of Risk Committee.

The Company operates in accordance with a risk management policy that defines the roles and responsibilities which manifest risk management concept, strategies, methods and approaches and that creates a common language across the Company. Within the framework of this policy, a Risk Management Unit is employed to better identify, measure and manage risks.

Within the framework of policies, standards and procedures approved by the Company management, the Risk Management Unit identifies major and critical risks for the Company, makes suggestions to mitigate, eliminate or transfer risks in cooperation with those in charge of risks, monitors action plans of functions, works to identify the Company's risk appetite, and follows whether risks are managed within the framework of this appetite with full support and responsibility of the management as well as active participation of the Company's employees.

The Company houses an Internal Audit Department that conducts audits, investigations and examinations in order to safeguard the rights and interests of the Company and to make suggestions against internal and external risks.

The Company's Internal Audit Department reports periodically and directly to the Audit Committee of the Company consisting of Independent Board Members due to the principle of independence and also fulfills the duties assigned to the Department by the Board of Directors within the framework of the existing Audit Committee Internal Regulations.

Internal audit mechanism is under the responsibility of top management and is reviewed regularly by the Internal Audit Department of the Company.

The duties of the Internal Audit Department are to check the reliability and accuracy of financial statements of the Company and subsidiaries, to ensure that operations are performed in compliance with laws and ethical rules adopted by the Company, to furnish assurances to minimize current and potential risks to reasonable levels by identifying them through process analyses with a view to increase the operational effectiveness and productivity, and to check whether operations are performed in accordance with the predefined standards, policies and objectives.

Committees

AUDIT COMMITTEE

Audit Committee consists of two independent Board Members who do not have direct executive functions and are knowledgeable and experienced in financial matters. At the General Assembly held on 25 March 2015, Independent Board Member Mehmet Kahya and Independent Board Member Hüsnü Paçacıoğlu were selected as the Chairman and Member of the Audit Committee, respectively. The term of office for Committee Members is the same as the term of the Company's Board of Directors.

The Chairman and Member of the Audit Committee are appointed by the Board of Directors. The reporting works of the Audit Committee are executed by Internal Audit Unit of the Company. Reporter is designated by the Chairman of the Audit Committee. The necessary resources for the Audit Committee to function and any kind of support are provided by the Board of Directors.

The responsibilities of the Audit Committee include:
- Informing the Board of Directors on the accounting system of the Company, financial reporting, public disclosure of financial data, functioning and effectiveness of the internal audit system and independent audit,
- Supporting the Company's efforts for compliance with related laws and regulations, notably the Legislation of the Capital Market Board, corporate governance principles and ethical rules of the Company,
- Performing the function of supervision on the above-mentioned issues.

The Audit Committee checks internal audit reports, confirms audit schedule and presents reports to the Board of Directors regarding the authenticity and accuracy of the financial tables to be announced to public.

The Audit Committee submits its activities, findings and suggestions in relation with its function and area of responsibility to the Chairman of the Board.

The Audit Committee convenes in Company headquarters or in another place upon invitation of the Chairman of Audit Committee, at least quarterly, with minimum four meetings per year.

The Committee may be called to extraordinary meeting by the Chairman of the Board or the Chairman of the Committee. It may hold meetings with a specific agenda with auditors and managers.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee consists of three members working at the Company. At the General Assembly held on 25 March 2015, Independent Board Member Hüsnü Paçacıoğlu was selected as the Chairman and Board Member Levent Demirağ and CFO Semih Utku as Members.

On 28 April 2016, Levent Demirağ, Corporate Governance Committee Member who resigned from the Board Membership, was replaced by Eren Mantaş and on 23 January 2017, Eren Mantaş who resigned from the Corporate Governance Committee Membership, was replaced by Gökhan Eyigün. The term of office for the committee members are the same as the term of Yünsa Yünlü Sanayi ve
Ticaret AŞ Board of Directors.

The goal of the Corporate Governance Committee is to furnish suggestions for compliance of the Company's corporate governance principles with those identified by the Capital Market Board and recognized internationally, to give advice to ensure adoption and implementation of these principles, to monitor the Company's compliance with these principles, and to perform improvement activities on these matters.

The Committee observes and identifies whether the Corporate Governance Principles are implemented in the Company. If not, it identifies justification and conflicts of interest arising from failure in complete compliance with these principles and advises the Board of Directors about improvements in corporate governance practices.

The Committee, furthermore, performs the functions of Nomination Committee and Remuneration Committee, as stipulated in the Corporate Governance Principles.

Meeting agenda is determined by the Chairman of the Committee. Members and shareholders submit the matters that they wish to be included in the agenda to the Chairman of Corporate Management Committee via reporters.

Meetings are held in a location and on a date to be seen fit by the Chairman at least four times a year. At the beginning of each year, the annual meeting schedule of the Corporate Governance Committee is prepared by the Chairman of the Committee and announced to all members.

The Governance Committee documents and keeps records of all the works performed and submits the reports containing all information about its practices and meeting minutes to the Board of Directors. Persons regarded as fit by the Chairman may attend in meetings.

All necessary resources and support for the Committee to function are provided by the Company's Board of Directors.

EARLY DETECTION OF RISK COMMITTEE

Early Detection of Risk Committee is established by the Board of Directors in order to detect in advance any kind of risks including strategic, operational, financial and others which may jeopardize the presence, development and continuity of Yünsa Yünlü Sanayi ve Ticaret AŞ; to implement measures and remedies necessary to do so; and to manage the risk.

The Chairman of Early Detection of Risk Committee is appointed among the independent members by Board of Directors of the Company. The Committee is composed of, except for Chairman, maximum one Member elected by Board of Directors. At the General Assembly held on 25 March 2015, Independent Board Member Hüsnü Paçacıoğlu was selected as the Chairman and Board Member Levent Demirağ as Member.

On 28 April 2016, Levent Demirağ, Early Detection of Risk Committee Member who resigned from the Board Membership, was replaced by Eren Mantaş and on 23 January 2017, Eren Mantaş who resigned from the Early Detection of Risk Committee Membership, was replaced by Gökhan Eyigün.

The term of office for the Committee Members is in parallel with that of the Company's Board Members.

The Early Detection of Risk Committee works to identify any kind of risks that may jeopardize the presence, development and continuity of the Company, to devise crisis prevention models and management systems, to ensure early diagnosis and detection of risks, to implement required measures, and to manage risks.

It reviews the risk management systems at least once a year and observes the implementation of the practices related with risk management in compliance with the Committee Resolutions.

Meeting agenda is determined by the Committee Chairman.

The Board of Directors and Committee members inform the Committee Chairman on the topics they wish to be included in the agenda. The Committee may invite any manager to its meetings and receive their opinions.

The Chairman and Members of the Board of Directors have been permitted by the General Assembly to carry out all transactions set out by the Articles 395 and 396 of the Turkish Commercial Code. In 2017, the Board Members did not have any transactions with the Company and/or did not undertake enterprises that might compete with the Company in the same areas of operation.


VESTAS

Corporate Governance Compliance Report

PART I – CORPORATE GOVERNANCE COMPLIANCE STATEMENT

During the fiscal period between 1 January 2017 and 31 December 2017, Yünsa Yünlü Sanayi ve Ticaret AŞ acted and still acts in compliance with the "Capital Market Board Corporate Governance Principles" stated in the Capital Market Board's (SPK) Corporate Governance Communique Nr II-17.1 issued in the Official Gazette numbered 28871 on 3 January 2014.

Yünsa commits itself to comply with the Capital Market Board's Corporate Governance Principles as well as with 4 principles of corporate governance - namely transparency, fairness, responsibility, and accountability.

Yünsa Corporate Governance Compliance Report of 2017 has been prepared in accordance with the new layout given in the bulletin of the Capital Market Board dated 27 January 2014 and numbered 2014/2.

Yünsa has taken necessary steps in accordance with the Corporate Governance Principles. With all of its operations so far and its commitment to compliance with the Corporate Governance Principles, the Company has proven that it is aware of its responsibilities towards all shareholders and stakeholders. Together with all employees and top managers who are aware of the contributions that adopting the Corporate Governance Principles make to the Company, Yünsa is committed to achieving further compliance with these Principles. In 2017, Yünsa paid due attention to obligatory/non-obligatory regulations stated in the Corporate Governance Principles and gave detailed information to shareholders and stakeholders on these issues in www.kap.gov.tr as well as the Company website www.yunsa.com.

Accordingly;

• In 2017, the Company made all public announcements for transparently, consistently, regularly and simultaneously informing the investors and analysts on all information that might influence their investment decisions. It updated its Investor Relations website regularly and attended investor meetings to ensure most ideal and continuous communication with the investors and analysts. It closely followed developments regarding legislations and took necessary actions.

Yünsa strongly believes in full compliance with the Corporate Governance Principles and complies with all obligatory principles stated in the Corporate Governance Communique II-17.1. However, some of the non-obligatory principles have not yet been fully complied with, due to certain difficulties in practice, national and international discussions under progress about compliance with some of the principles, and discrepancy of certain principles with the Company and the market. We still closely monitor related developments and continue efforts for compliance.

Yünsa strongly believes in full compliance with the Corporate Governance Principles and complies with all obligatory principles stated in the Corporate Governance Communique II-17.1. However, some of the non-obligatory principles have not yet been fully complied with, due to certain difficulties in practice, national and international discussions under progress about compliance with some of the principles, and discrepancy of certain principles with the Company and the market. We still closely monitor related developments and continue efforts for compliance.

Regarding the principle 2.1.3 that requires public disclosure of financial statements (except for special situations and footnotes) in English as well as in Turkish at the Public Disclosure Platform (KAP): As those who would benefit from such disclosures, especially international investors, may reach such statements through the infrastructures of data distribution corporations such as Reuters, Foreks etc., the Company chooses not to issue financial statements and disclosures in English to avoid additional workload and costs.

In the upcoming period, the Company shall take necessary steps, taking into consideration the legislative amendments and implementations.

PART II – SHAREHOLDERS

2.1. Investor Relations Department

There is an Investor Relations Department in the Company to manage relations with the shareholders. This department is coordinated by CFO Mr. Semih Utku. The head of the department is İsmail Alpaslan (ialpaslan@yunsa.com). The officers may be contacted via telephone at 0212 385 87 00 and fax at 0212 282 50 68. İsmail Alpaslan holds Level 3 license for Capital Market Activities.

The Investor Relations Department is responsible for regularly informing shareholders and prospect investors on the operations, financial status and strategies of the Company, except for confidential information and trade secrets, in a manner that avoids information asymmetry as well as for managing two-way interaction between shareholders and Company managers.

The Investor Relations Department carries out the following duties with the aim of fulfilling shareholders' right to information and ensuring complete and immediate fulfillment of their rights arising from partnership:

• To ensure keeping decent, secure and updated records for the correspondence and other information and documents shared between investors and the partnership,
• To respond to shareholders' written requests for information
• To prepare documents to be submitted to shareholders with respect to General Assembly and to take measures to ensure that the General Assembly is held in accordance with relevant legislation, Articles of Incorporation and other in-house arrangements
• To monitor and supervise fulfillment of liabilities arising out of Capital Market Legislation, including any and all issues related to corporate governance and public disclosure.

Within the scope of such duties, the Department fulfilled all responsibilities in 2017. In addition, it had phone conversations with approximately 10 shareholders to respond their questions.

2.2. Shareholders' Exercise of Right to Information

For exercising the right to information, shareholders are disclosed all information, except for trade secrets, and they are ensured to obtain firsthand information on strategy and operations.

In 2017, demands of shareholders for information are responded by the Investor Relations Unit via telephone conversations and for this purpose, information that will be of interest to shareholders are issued in the website by pursuing obligatory mandatory announcement processes.

In 2017, no information or disclosure is published in the company website which may have an impact on the use of rights of shareholding by shareholders.

The appointment of a special auditor has not been set as an individual right in the Company's Articles of Incorporation. In 2017, no such request has been received from shareholders.

2.3. General Assembly Meetings

Regulations regarding the General Assembly Meetings of the Company are stated in the "Internal Directive on Operations Rules and Procedures of Yünsa Yünlü Sanayi ve Ticaret AŞ" disclosed in the "Information Society Services" pages of the Company website. In addition, statements and documents to be shared publicly via KAP before and after the General Assembly in accordance with the legislation are shared on the website under the title "General Assembly Meetings" of the Investor Relations section.

2016 Ordinary General Assembly of Yünsa was held on 29 March 2017 at the Sadıka Ana Conference Hall of the Company headquarters located at Sabancı Center, 4.Levent 34330 İstanbul. At the Ordinary General Assembly of Yünsa, the Company's total nominal value of TL 29,160,000.00 was represented by 1,724,464,100 shares with a total nominal value of TL 17,244,641.00 and the meeting was held with 59.14% participation rate.

Regarding the principle 1.3.11, General Assembly Meetings are open to partners and those who cannot attend the meeting in person may still participate via Electronic General Assembly. Therefore, our General Assembly Meetings are not publicly held, including stakeholders or the media.

Invitation to General Assembly Meetings is delivered by the Board of Directors according to the provisions of the Turkish Commercial Code (TTK), Code of Capital Market and Company's Articles of Incorporation. Immediately after the Board of Directors' decision for convention of General Assembly, public announcement is made through KAP. Announcement of General Assembly meeting is published in our website www.yunsa.com and the Electronic General Assembly System page of Central Securities Depository website 21 days prior to the General Assembly meeting date.

Necessary documents related with the agenda items are publicly announced before General Assembly Meeting and all legal processes and legislations related with notifications are complied with. Within the framework of General Assembly agenda items, annual report, financial statements, corporate governance compliance report, dividend suggestions, independent audit report, amendment drafts including former and new versions of the text amended if any amendment is to be made in the Articles of Incorporation are provided to the review of shareholders at the Company headquarters as well as in the website in the most accessible manner. Furthermore, detailed explanations are provided for each agenda item in the information documentation related with the agenda items and other information proposed for the General Assembly Meetings in the principles are presented to investors.

In our General Assembly Meetings, agenda items are voted through raising hands and open voting method is used.

Shareholders whose registry of shares are monitored by the Central Securities Depository may physically attend the General Assembly in person or via proxies or if they wish virtually through Electronic General Assembly system accessible via Central Securities Depository website in person or via their proxies by using secure electronic signatures. We adopt practices to facilitate participation in the General Assembly in the most affordable and easiest manner, without causing any inequality among shareholders.

Shareholders may authorize their proxies through the Electronic General Assembly System or, in accordance with the provision II-30.1 of the Capital Market Board, by filling in and notarizing a power of attorney form available in our Company headquarters and in Company website at www.yunsa.com or by attaching notarized signatory circulars with the aforementioned power of attorney.

Our General Assembly Meetings are held in the Company headquarters. Our Articles of Incorporation, when necessary and upon the decision of Board of Directors, allows for meetings to be convened in other places within the provincial territory where the headquarters is located or in the place where industrial plant of the Company is located.

Minutes of the meeting are available in our website www.yunsa.com, in www.kap.gov.tr and in the Electronic General Assembly System page of the Central Securities Depository. In addition, these minutes are available for review of our shareholders in the headquarters and are provided upon request.

Donations and aid granted within the period and changes in policies are brought to the table at Assemblies as a separate agenda item. In the General Assembly meeting, shareholders were informed that the Company made a total donation of TL 2,000 in 2016 and it was decided that the maximum donation for 2017 will be TL 250,000 and/or 5% of the accounting profit. Donations and Aid Policy was submitted to and approved by the shareholders at the General Assembly Meeting on 25 March 2015.

Shareholders had the right to ask questions which were directly replied at the Shareholders Assembly. In addition, each and every question posed and responses made thereto were publicly disclosed by the Investor Relations Department through partnership website within 30 days following the Assembly.

Shareholders made no agenda proposals.

Shareholders with management control, Board Members, executive managers and their spouses and collateral relatives of blood and marriage to the second degree do not perform significant transactions that may cause conflict of interest with the partnership and subsidiaries and/or perform any commercial transaction within the operational area of the partnership and subsidiaries on his/her behalf or on behalf of others, or become associate partners to another partnership operating in the same commercial area whatsoever. Except for these persons, others who have the opportunity to access company information did not make any transactions on their behalf within the area of operations of the Company.

2.4. Voting Rights and Minority Rights

Articles of Incorporation does not envisage privileged voting rights.

There is no corporation we are in mutual shareholding benefit.

Our company places importance on the exercise of minority rights in accordance with the provisions of TTK and SPK and no criticism nor complaint was received in this regard in 2017.

Given the principle 1.5.2, there is no violation of rights with respect to basic shareholding rights such as minority-share participation to the General Assembly, representation by proxy, upper limit for voting rights etc. We paid attention to the exercise of minority rights, however no arrangement was made with regard to extension of the scope of minority rights and granting the same rights to those who hold less than 1/20 of the share capital.

2.5. Dividend Rights

Profit Distribution Policy of Yünsa Yünlü Sanayi ve Ticaret AŞ (Yünsa) has been determined within the scope of provisions the of Turkish Commercial Code, Capital Market Legislation and other relevant legislations as well as the relevant clause of our Articles of Incorporation, in line with Yünsa's medium and long-term strategies, investments and financial plans as well as by means of considering the state of the national economy and the industry and by considering the balance between shareholders' expectations and the requirements of Yünsa.

In accordance with the resolution taken at the General Assembly, the principle of determining the amount of share of profit to be distributed has been adopted, however it has also been adopted as a principle that while distributing profits, shareholders may be given cash and/or bonus share at the rate of minimum 50% of the distributable profit.

Advance dividend distribution is not implemented at Yünsa.

Although it is accepted that dividends shall be distributed equally to all share as soon as possible, without considering the acquisition and discharge dates thereof and the total of available shares, they will be distributed to shareholders following the approval of the General Assembly and on the date General Assembly determines within the legal periods identified.

General Assembly can transfer some or all of net profit to contingency reserves. In case Yünsa Board of Directors proposes General Assembly to not to distribute profit, information on the reasons of this proposal and how the undistributed profit is to be used is given to shareholders at the General Assembly Meeting. Likewise, this information is shared with the public in the annual report and on the website.

Profit Distribution Policy is submitted for approval of shareholders at the General Assembly Meeting. This policy is revised annually by the Board of Directors, depending on any negativity in national and global economic conditions and according to the status of current projects and funds. Amendments in this policy are submitted for approval of shareholders at the first General Assembly Meeting following the amendment and are publicly disclosed on the website.

Profit Distribution Policy and annual profit distribution proposal are included in the annual report, submitted to the shareholders at the General Assembly, and announced publicly on Investor Relations website.

At the 2016 Ordinary General Assembly Meeting, it was decided that the Company shall not distribute any profit for the fiscal period 2016 within the scope of the profit distribution regulations of SPK. There is no privilege for attendance in profit distribution set forth in the Articles of Incorporation.

2.6. Transfer of Shares

The Company's Articles of Incorporation does not prescribe any provisions that restrict transfer of shares.

PART III - PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. Corporate Website and Contents

The Company has a corporate website with the URL address www.yunsa.com. Important information in the website is also disclosed in English. As those who would benefit from such disclosures, especially international investors, may reach such information through the infrastructures of data distribution corporations such as Reuters, Foreks etc., the Company chooses not to publish some information in English to avoid additional workload and costs.

In order to ensure comprehensive information relay to current and prospective investors as well as intermediaries, the website contains separate "Investor Relations" and "Information Society Services" sections.

Within the framework of the Regulation on Websites to Be Set Up by Capital Companies issued at 31 May 2013 in the Official Gazette by the Ministry of Customs and Commerce as well as the first sub-article of Article 1524 of TTK, procedures and principles concerning the website publication as well as allocating a section to the information society services and announcements which must legally be made by the Company. e-Company provided by MKK requires that content to be announced pursuant to Article 1524 of TKK by making use of the Company Information Portal platform service is uploaded to the company-exclusive pages with secure electronic signature and time stamp, uploaded content should be kept in a secure environment, the content should be accessible and archived in a secure manner.

Information prescribed by SPK Corporate Governance Principles is published in the website. The rules concerning the management of the website are provided in our Disclosure Policy.

Some of the headings published in the website are as follows:
• Details of corporate identity
• Vision and mission
• Information on Board Members and Top Management
• Company's shareholding composition
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• Company's Articles of Incorporation
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• Information on independent auditor
• General Assembly Meeting date, agenda, explanations about items of the agenda
• General Assembly Meeting minutes and list of attendees
• Sample power of attorney
• Corporate governance practices and compliance report
• Profit distribution proposal
• Profit distribution policy
• Information disclosure policy
• Anti-corruption policy
• Donations and aid policy
• FAQ

3.2. Annual Report

The Company's annual report is prepared and disclosed within the framework of the provisions of the "Directive on Determining Minimum Content for Corporate Annual Reports" issued in the Official Gazette Nr. 28395 on 28 August 2012, periods stated in SPK II-14.1 "Communique on Principles of Financial Reporting in the Capital Market", and Corporate Governance Principles.

The Annual Report is submitted for the approval of the Board of Director and unless the Board decides for disclosure following the financial statements with an individual state of responsibility, it is disclosed to the public together with financial statements.

Accordingly, within the framework of regulations regarding the Turkish Commercial Code, Regulations and Capital Market Law, 2016 annual report was submitted to the examination of shareholders at the Company Headquarters, MKK Electronic General Assembly Portal and Company website for three weeks prior to the 2016 Ordinary General Assembly. Then it was read and discussed at the Ordinary General Assembly held on 29 March 2017.

PART IV - STAKEHOLDERS

4.1. Informing the Stakeholders

Stakeholders are informed on Company-related developments through public disclosures made under the relevant legislation. Public disclosures are made by means of either press conferences or speeches through media. On the other hand, detailed information disclosures in our General Assembly meetings as well as in our website, our comprehensive annual report, our press statements, and our transparent disclosure policy and practices inform not only our shareholders, but also all stakeholders.

Company employees are also informed through meetings on their specialization areas and on other related fields and through seminars, training programs, and e-mails. There is an employee portal which enables them to have electronic access to any kind of required information and document.

Stakeholders may inform the Head of Audit Department and Head of Ethics about transactions in violation of legislations and Company Ethics by sending e-mails to etik@yunsa.com (published in the Company's website). These e-mails are then forwarded to the Audit Committee.

4.2. Participation of Stakeholders in Management

• Shareholders participate in management through General Assembly, investor site visits and requests and suggestions forwarded to Finance and Investor Relations.
• Suppliers participate in management through improvement negotiations, surveys and supplier visits.
• Customers participate in management through customer visits, satisfaction surveys, exhibitions, meetings, and customer days.

On the other hand, employees participate in management through tools such as periodic meetings, annual target setting meetings, budget compliance and performance review meetings, TPM committee meetings, quality/environmental/occupational safety and energy meetings, improvement practices, various common events, and suggestion system. In addition, through various application tools including business life evaluation surveys, internal customer satisfaction surveys, sharing and communication meetings, climate meetings, performance interviews, and meetings with the CEO, employees give feedback to the management and colleagues and results are reviewed at management meetings to devise action plans for necessary changes.

Such approaches ensure the required participation and contribution of stakeholders to effective management of the Company.

4.3. Human Resources Policy

The Human Resources Policy is shared on the Company website, intranet, documentation system and in-house visual management areas.

Our HR Policy

Our Company is perfectly aware of the fact that the most valuable asset in achieving sustainable success is the employees. In this regard, it is the major objective of the Company to create an inclusive, participative, entrepreneurial culture that values diversity and creativity through solutions and practices aimed at the organization's current and future needs.

Our principle is
• to ensure a working atmosphere that perpetuates ethical values, offers mutual trust, embraces responsibilities, appreciates success, respects diversity, pays attention to opinions and expectations, protects balance between business and private life, and implements policies and practices that go beyond legal requirements.

In accordance with this principle, we undertake to
• Win individuals who are eligible for improvement and who positively contribute to change,
• Create continuous improvement opportunities,
• Manage processes that support individual performance to achieve company targets,
• Support innovative and entrepreneur employees,
• Appreciate and reward contributions and achievements,
• Manage strong relations with all stakeholders,
• Establish a corporate culture which supports continuous improvement and development,
• Review and restructure systems, processes and communication channels in parallel with necessities.

Our major expectation from employees is adding value to the Company's business outcomes by always being a leader in creating a difference and creativity for Yünsa's sustainable growth targets through an inclusive, participant and entrepreneurial culture.

Our HR operations are described as the processes for recruitment and attracting qualified labor, corporate and individual performance management, career and back-up management, individual and organizational improvement, training, salary-reward and other benefits management, industrial relations, occupational health and safety, environmental protection, and general services management. These operations are managed by Tamer Tok, HR Manager.

Our recruitment process aims to select and place candidates who will carry our Company to the future, adopt our company values and possess talents that are the most suitable for the job. We believe that such approach will create a long-term, productive and effective working environment.

Structured competence-based interviews, personality inventories, foreign language tests, role plays, case studies, presentations, and talent tests are employed in the selection process to ensure a systematic and objective approach.

We render long-term strategies and objectives of the Company to operational level and monitor performance through Balanced Scorecards. The Company's objectives and functional targets are monitored with this Balanced Scorecard approach.

With the individual performance management, we aim to render function targets into individual targets, evaluate employees by using accurate and objective criteria, create motivation for breeding results, and establish a culture of constant development. The most critical part of the process is constant monitoring and feedback.

A salary and other benefits system is applied that appeals to qualified labor and rewards employees over liabilities and contributions thereof.

Salary and other benefits system applied for white-collars is based on the salary policy that is established according to job extent, market data and company performance as well as on the achievements of individual targets. Whereas salary and other benefits system of blue-collars are regulated with the Collective Labor Agreement.

In line with our approach of constant development, we support our employee's opinions and ideas for improvement and development through our "Suggestion System". All employees may make suggestions via the kiosks located on sites or computers by using the related portal. They may also use fault cards to suggest corrective and preventive practices.

Employee's suggestions are evaluated by related committees and managers. After the evaluation, owners of the accepted and implemented suggestions are rewarded.

Furthermore, thanks to recognition, conferment and rewarding approaches, individual/team efforts and achievements of employees are rewarded, which enhances motivation and corporate loyalty. Every job definition, organizational charts, performance and rewarding criteria are described in relevant procedures; disclosed and constantly updated in the documentation system, intranet and other environments that are accessible by every employee.

No discrimination claim has been filed in 2017 or before by employees.Regarding the principal 3.1.2; Sabancı Group companies operating in national and international markets act in compliance with and respectful to local laws and special rules of law such as collective labor agreements, if any. Within the period from the first day of the labor contract until the expiration/termination thereof, we exercise due diligence to protect and pay any and all rights and receivables of our employees.

Regarding the principle 3.3.6; we announce job definitions and distribution of the employees as well as performance and rewarding criteria to the employees and we pay attention to efficiency while determining salaries and other benefits. However, as per the HR Policy, there is no share acquisition program for employees.

Compliance with the Privacy Act that became a part of our social and corporate life in 2017 is also a priority issue for our Company.

4.4. Codes of Conduct and Social Responsibility

Code of business ethics (SA-ETHICS) built upon Sabancı values and work principles play an important role in ensuring sustainability, reliability and reputation of the system we have created. All operations of our Company are exercised within the scope of SA-ETHICS. Codes of business ethics are disclosed via the corporate website.

Effective implementation of SA-ETHICS is ensured through the Ethics Board and Code of Ethics Consultants. Our Code of Ethics Consultant monitors the SA-ETHICS practices in our Company, offer consultancy to employees, supports the Ethics Board in realizing and developing practices, and ensures internal coordination for SA-ETHICS practices, in constant contact with Hacı Ömer Sabancı Holding Ethics Board.

Within the framework of our responsibility to ensure continuity of ethical values on which both Sabancı Group and our Company is built, we transfer and extend ethic values to all employees through trainings. Codes of Business Ethics are issued in corporate portals, delivered to all employees during trainings and/or e-learning environments, and handed out as booklets. In addition, at the end of each year, an e-learning program allows employees to consolidate their knowledge in codes of business ethics and confirm their loyalty to business ethics by signing a "Business Ethics Compliance Notification".

In addition to its contribution to the national economy and wide-scope employment opportunities, Yünsa also acts responsibly towards the environment, which is an indispensable value for the world. It supports environmental sustainability with the projects it develops, the standards it implements, and the projects to use natural resources in the most efficient way.

Mitigating negative impact on climate change has become a significant goal in the Company's "evaluation of risks and opportunities" practices. By focusing on climate change practices for a more livable world, the Company has created working programs based upon strategic and systematic management as well as upon environment-friendly projects.

Since 2010, Yünsa has been publicly disclosing its efforts towards mitigating negative impact on climate change and its adaptation practices through CDP programs. By reporting its greenhouse gas and water management systems and projects, Yünsa got "B" scores in both CDP Turkey Climate Change and CDP Turkey Water Programs in 2017. Thus, Yünsa further improved its leading and competitive position and maintained its international success in the protection of environment.

Yünsa has been implementing ISO 14001 Environmental Management System since 2004. In this context, our Plant's impact on the environment is evaluated and measures are being taken for the mitigation/elimination of such impacts.

Yünsa prepared a Clean Production Plan in 2017 and continued its operations in line with this plan. Within the scope of the plan, the best production methods are identified and applied to minimize environmental damage. In this regard, an R&D project to treat and reuse wastewater is being implemented.

Eko-Tex ® Standard 100 is a worldwide standard testing and certification system for raw materials at all stages of process as well as for intermediate and final products in the textile industry. Aiming to offer perfectly healthy products to its customers, Yünsa renewed its Eko-Tex ® 100 certification in 2017. In our production processes, no prohibited chemicals are used and we maintain our responsible approach by cooperating closely with our suppliers in this regard.

All wastes that are generated during Yünsa's operations are sorted and sent to licensed disposal and recycling institutions.

Dust- and gas emissions emitted as a result of our operations are regularly inspected by accredited corporations and reported to the Ministry of Environment and Urbanization.

Yünsa has lunched R&D projects focusing on energy and water savings to optimize the use of natural resources and reduce environmental impact.

With its respectful approach to nature and awareness on social responsibility, Yünsa created Yünsa Reforestation Areas by the Istanbul-Edirne highway Çerkezköy junction and at Çerkezköy-Saray highway Büyükçavuşlu location under reforestation projects to contribute to a better future. Planting, watering and maintenance works of all forestation areas are carried out by Yünsa, based upon corporate volunteerism.

Yünsa continues to hold periodic trainings with the aim of increasing environmental awareness of all levels of employees. In 2017, trainings were organized to raise level of awareness.

Every year, waste disposal companies that Yünsa works with are audited in terms of quality standards and environmental legislations. Through these audits, areas for improvement are identified and companies are encouraged to take actions on deficiencies. These companies are given trainings on environment and occupational safety and their development is supported through audits.

All occupational safety operations are monitored at monthly review meetings with the participation of top management and required investments are planned and implemented. Yünsa documented these practices with OHSAS 18001 certification.

Due to the increasing importance of energy and energy management, energy efficiency has become an even more critical issue. Therefore, Yünsa accelerated its energy efficiency practices and had these practices certified by ISO 50001.

Yünsa fulfills its social responsibilities by dividend contributions made to Hacı Ömer Sabancı Foundation; Social Responsibility projects for employees and their relatives; donations to schools and other institutions in Çerkezköy where the production facilities ae located; and internship granted to approximately 40 students every year.

PART V-BOARD OF DIRECTORS

5.1. Structure and Formation of the Board of Directors

The Board of Directors (BoD) supervises compliance of company operations with the legislation, AoI, internal regulations, and policies defined. The BoD also manages and represents the Company by making strategic decisions, taking into account risks, growth and yields thereof, and considering long-term interests.

The Board of Directors of the Company is composed of 6 members, selected in accordance with the Turkish Commercial Code provisions and AoI at the 2014 Ordinary General Assembly held on 25 March 2015 and to serve until the 2017 General Assembly to be held in 2018.

In accordance with Article 363 of the Turkish Commercial Code, Barış Oran who resigned from the posts of Vice-Chairman of the Board and Board Membership on 20 April 2016 was replaced by Eren Mantaş as a Board Member; Levent Demirağ who resigned from the post of Board Membership was replaced by Fabio Foschi; Mehmet Nurettin Pekarun who resigned from the posts of Chairman of the Board and Board Membership on 21 April 2016 was replaced by Mehmet Hacıkamiloğlu to serve during the remaining time; and Nadide Burcu Tokmak who resigned from the post of Board Membership on 2 December 2016 was replaced by Gökhan Eyigün on 23 January 2017. Memberships of Eren Mantaş, Fabio Foschi, Mehmet Hacıkamiloğlu, and Gökhan Eyigün who will serve in the remaining time were approved at the General Assembly on 29 March 2017.

Minimum qualifications of Board Members are not stated in the AoI. However, qualifications of the Company's Board members are in line with the articles stated in SPK Corporate Governance Principles.

The Board of Directors include both executive and non-executive members. Majority of the Board Members are non-executive members as stated in the Corporate Governance Principles. Non-executive members include two independent members who are capable of serving without being under any influence and Board Members are elected by the General Assembly in accordance with the Corporate Governance Principles.

Board Members may serve for a maximum period of three years. Once the term of office is completed, members may be re-elected.

The General Assembly resolution entitles Board Members to operate in accordance with Articles 395 and 396 of the Turkish Commercial Code.

Independent Board Members were selected upon approval at the Ordinary General Assembly Meeting on 25 March 2015 for the nominee list of two Independent Board Members in accordance with the Board resolution sated 27 February 2015. Immediately upon being nominated, Independent Board Member nominees submitted their independence statements stating their fulfillment of the independence criteria to the Board Member. In the related period, Independent Board Members were not engaged in any situation that annihilates their independence.

Regarding the principle 4.2.5; in parallel with the circular for signature currently effective, there is no one who hold sole and unlimited decision-making power in the Company. Chairman of Board and the CEO offices are carried out by different individuals. Powers of the Chairman and CEO are separated; however, such diversification is not regulated in the AoI.

Regarding the principle 4.3.9; although no target ratios (not to be less than 25%) or deadlines have yet been set for women board members, this issue is paid special attention. Upon resignation of Nadide Burcu Tokmak, there are no women Board Members currently. No conflict of interest has so far emerged among stakeholders with regard to incompliance with said principle.

Regarding the principle 4.4.7; there is no restriction for Board Members that prohibit undertaking duties outside the company; however, it is observed that the Members make their best efforts to allocate time necessary for company business. Particularly professional and industrial experiences of Independent Members significantly contribute to the Board, hence no such restriction is envisaged.

Below is the list of Board Members, including executive or non-executive members:

Mehmet HACIKAMİLOĞLU
Chairman of the Board of Directors (Executive)
(21 April 2016 - March 2018)

Having graduated from the Civil Engineering Department at Boğaziçi University in 1993, Mehmet Hacıkamiloğlu completed the Executive MBA program at Sabancı University in 2001. He worked as field engineer at Üstay İnşaat from 1992 to 1993 and joined the Sabancı Group of Companies in 1993, where he worked in Betonsa first as Ready-Mixed Concrete Plant Supervisor and then Investment and Planning Supervisor. He was Strategy Development and Planning Manager at Akçansa from 1997 to 1999 and General Manager at Agregasa from 1999 to 2001. Then he worked as Finance Coordinator at Akçansa in 2001-2003. He was appointed Assistant General Manager for Financial and Administrative Affairs at Çimsa in 2003. Having been appointed General Manager of Çimsa on 1 July 2006, Mehmet Hacıkamiloğlu became Akçansa General Manager on 1 September 2014. On 17 February 2016, Hacıkamiloğlu was appointed Strategic Business Unit (SBU) President for Cement at Sabancı Holding and following the decision to merge SBU Cement with SBU Industry under the roof of SBU Industry, he was appointed SBU President for Industry on 21 April 2016.

Duties Undertaken outside the Company:
H.Ö. Sabancı Holding AŞ SBU President for Cement

Eren MANTAŞ
Deputy Chairman of the Board of Directors (Executive)
(20 April 2016 - March 2018)

A graduate of Business Administration at Boğaziçi University, Eren Mantaş received his MBA degree from the University of California at Berkeley. He started his career as auditor at Arthur Andersen in 1997 and continued in the same organization as corporate financing consultant. He was based in Napa, California from 2002 to 2004, working as Project Finance Manager at Actus Lend Lease. He was Strategic Planning Manager and later Strategic Planning and Finance Director at Teknoloji Holding and Brightwell Holdings respectively between 2005 and 2011. He is Financial Planning, Analysis and Investor Relations Director at Sabancı Holding where he has been working since 2012. He is the Vice General Manager of Çimsa since May 2017.

Duties Undertaken outside the Company:
H.Ö. Sabancı Holding AŞ Director of Financial Planning, Analysis and Investor Relations

Gökhan EYİGÜN
Board Member (Non-executive)
(23 January 2017 –March 2018)

During his approximately 20-year career, Gökhan Eyigün acted as manager in projects and operations in a number of different industries in the areas of corporate financing, strategy and corporate business development. He started his career at Arthur Andersen and offered consultancy services mainly in Corporate Financing. Thereafter, he worked for Price Waterhouse Coopers, where he built up Corporate Finance and M&A departments as the unit manager. He has been working for Sabancı Group in different managerial levels since 2007. Currently, he is the director of Strategy and Business Development at Sabancı Holding. He graduated from Istanbul Technical University, department of Business Administration Engineering in 1998 with honors. He had his master degree from Rotterdam School of Management in 2002-2004 and received several management courses from Harvard Business School.

Duties Undertaken outside the Company:
H.Ö. Sabancı Holding AŞ Director of Strategy and Business Development

Fabio FOSCHI
Board Member (Non-executive)
(20 April 2016 – March 2018)

Fabio Foschi completed his graduate studies in Chemical Engineering in 1980 at the University Politecnico di Milano. He started his career at Grace, a chemical company based in Germany, and assumed various roles there, the last of which was Sales and Marketing Director, EMEA. After his international experience, Foschi returned to Italy in 1998, and served in senior management positions in public and family enterprises such as FIAMM (automotive parts, Director), Montefibre (chemical fibers, Director), Miroglio (textiles and fashion, General Manager), and Fratelli Piancenza SpA (textiles, fashion and retail, General Manager and CEO). He has been an executive since 2012 at a consulting company, of which he was the founding partner in 2003. Throughout the years, he has been the Board Member of various companies and worked in the Board of Directors of "Biella Master of Noble Fibers" from 2011 to 2015. Since the academic year 2012-2013, he teaches "Management of Fashion Companies" at IED-Fashion School in Milan.

Hüsnü PAÇACIOĞLU
Board Member - (Independent)
(25 March 2015 - March 2018)

Hüsnü Paçacıoğlu got his BSc in Industry Management at Middle East Technical University in 1963. Between 1964-1968 he served as an Investment Specialist at Karabük Iron and Steel Works Enterprises. Between 1968 and 1996 her worked at IBM Turk as Government Affairs and Ankara Regional Manager, Public Sector Sales Director, Professional and Technical Services Manager and Deputy General Manager in charge of Marketing, Sales, Products and Services. Hüsnü Paçacıoğlu was assigned as the General Secretary of Sabancı University in 1996 until 2005. Between 2006 and 2011, he served as Vice President of Board of Trustees, Vice President of the Executive Board, and General Manager of Hacı Ömer Sabancı Foundation (Sabancı Foundation). Since 1 July 2011, he continues his duties at Sabancı Foundation Board of Trustees and Executive Board, except for the duty of General Manager.

Duties Undertaken outside the Company:
• Hacı Ömer Sabancı Foundation – Deputy Chairman of Board of Trustees and Executive Board
• Turkish Spastic Children Foundation – Chairman of Board and Member of Board of Trustees
• Hisar Education Foundation - Member of Board of Trustees
• Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret AŞ – Board Member
• Afyon Çimento Sanayi Ticaret AŞ – Board Member

Mehmet KAHYA
Board Member - (Independent)
(25 March 2015 - March 2018)

Mehmet Kahya had double major at Yale University Chemical Engineering and Economics departments and MBA on Finance, Marketing and Operations Research at Kellogg Graduate School of Management. He started his career as Sasa Management Services Chief in Sabancı Holding and then founded and presided MKM International (Netherlands) and Sibernetik Systems. After joining Sabancı Holding again as Vice President of Automotive Group, he assumed the roles of Temsa Vice President and President, member of Planning and Steering Council, Toyotasa Vice President as well as Board Member of Toyotasa, Temsa, Susa, and Sapeksa. Mehmet Kahya then served as Managing Member and Vice Chairman of Carnaud Metalbox, President of Uzel Machinery and Executive Board Member of Uzel Holding, Vice President of DYO General Directorate and Paint Group, Member of Executive Board of Sarten Packaging, Vice Chairman of Gierlings Velpor (Portugal), and President of Assan Aluminum. Currently contributing as a consultant for strategy, restructuring, profitability transformation, growth, M&A projects at KRONUS, of which he is a founder, Mehmet Kahya also holds Board Memberships at Çimsa, Carrefoursa, Yünsa, and Electrosalus and also serves as a consultant for shareholders at Makel Elektrik, Enerjeo and Gediz Energy.

Duties Undertaken outside the Company:
- KRONUS Kurumsal Finans Danışmanlık AŞ - Consultant
- ELECTROSALUS Biyomedikal San ve Tic AŞ – Board Member
- Dağbaşı Proje ve Yatırım Ticaret AŞ - Consultant
- DYO Boya Fabrikaları Sanayi ve Tic. AŞ - Board Member
- Viking Kağıt ve Selüloz AŞ - Board Member
- Çimsa Çimento Sanayi ve Ticaret AŞ - Board Member
- Sasa Polyster Sanayi AŞ - Board Member

The independence statement for Independent Board of Directors is as follows:

INDEPENDENCE STATEMENT

Being a nominee for Yünsa Yünlü Sanayi ve Ticaret AŞ (Company) BoD, to act as "independent member" within the criteria set forth in the legislations, AoI, and Corporate Governance Principles (II-17.1) announced by the Capital Market Board, I hereby state that:

a) There have not been executive recruitment relations covering important duties and responsibilities between myself, my spouse, my collateral relatives of blood and marriage to the second degree and the Company, management control as defined in TFRS 10 Standard, any partnership with significant influence as defined in TMS 28 Standard, partners with significant influence on the Company (TMS 28), or legal persons over which these partners have management control in the last five years; I do not possess capital or voting rights or privileged shares of more than 5% either in cooperation with these people or alone; I do not have any significant (TMS 28) commercial relations with them;

b) In the last five years I did not act as a partner (more than 5%), an executive or Board Member with significant duties and responsibilities in contracted companies that purchase or sell significant services or products from or to the Company, especially in Company audits (tax audits, legal audits, internal audits included), rating and consultancy, within the periods of service or product purchase or sale;

c) I have professional education, know-how and experience required to properly fulfill duties resulting from the office of Independent Board Member;

ç) Once selected as a Member, I do not and shall not work full-time at public institutions, except for the academia if it is in accordance with the related legislation;

d) I am a resident in Turkey in accordance with the Income Tax Code Nr. 193 dated 31 December 1960;

e) I possess strong ethical standard, professional reputation and experience required to make positive contributions to the Company operations, to act unbiased in conflicts of interest between the Company and the shareholders, to liberally make decisions by taking into consideration the rights of stakeholders;

f) I shall allocate necessary time to monitor Company's operations and fully and duly fulfill my offices;

g) I have not acted as Board Member in the Company's Board for more than 6 years in the last 10 years;

ğ) I have not acted as Independent Board Member in more than three companies that the Company owns or has controlling partners of the Company also have controlling management and in more than five publicly-traded companies;

h) I have not been registered and announced on behalf of the legal person selected Board Member.

I hereby kindly submit to the BoD, General Assembly, shareholders, and all stakeholders.

5.2. The Operating Principles of the Board of Directors

Board of Directors meet as often as it requires to perform efficiently and executes its activities in a transparent, accountable, fair, responsible manner and in doing so, observes long-term interests of the Company.

It is obligatory for the Board to meet at least four times a year.

In 2017, the Company's Board of Directors held a total of 26 meetings; 2 of these were held face-to-face and 24 after obtaining written approvals according to the provisions of the Turkish Commercial Code and the Articles of Incorporation. Operation principles of Board of Directors, meeting and decision quorums are executed on the basis of provisions of the Company's AoI. Every member has one vote in meetings of Board of Directors.

The agenda of the Board meetings are determined as a result of consultations among Chairman, current Board Members and CEO. The duties of the Secretariat are carried out by the Office of the Deputy General Manager for Financial Affairs. The Secretariat is responsible for notifications and communication about meeting agendas and for preparing the meeting minutes.

In 2017, there were no dissenting opinions concerning the decisions taken by the members of the Board of Directors.

In 2017, the Board Members did not have any transactions with the Company and/or did not undertake enterprises that might compete with the Company in the same areas of operation.

In accordance with the Article 4.2.8. of the Communique, damages to the Company due to faults of Board Members and Executives during their term of service are covered by Hacı Ömer Sabancı Holding Global Insurance through Board Members and Executives Liability Insurance.

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

The Board of Directors makes use of committees while executing its duties and responsibilities. The decisions taken as a result of committee works are submitted as suggestions to the Board of Directors and final decision is given by the Board.

In order for the Board of Directors to properly fulfill its duties and responsibilities, Audit Committee, Corporate Governance Committee and Early Detection of Risk Committee have established in accordance with the Capital Market Legislations, SPK regulations and Corporate Governance Principles. Liabilities of "Nomination Committee" and "Remuneration Committee" as stated in Article 4.5.1 of the Communique are undertaken by the Corporate Governance Committee.

Although the Company pays attention to compliance with Article 4.5.5 of the Communique advising that "a Board Member does not take place in more than one committee", due to number of Board Members, requirements of committee structures and expertise required by committee membership, some Board Members are assigned to more than one committee.

In 2017, there were not any conflicts of interest in the committees.

Committees:

Corporate Governance Committee

Monitors the compliance of the Company with Corporate Governance Principles, makes remedial suggestions and monitor the operations of Investor Relations Unit. In addition, it executes the functions of "Nomination Committee" and "Remuneration Committee".

Corporate Governance Committee consists of maximum three members, including the chairman, and two reporters appointed by Yünsa Board of Directors in accordance with the Corporate Governance Principles of SPK. The Chairman of Corporate Governance Committee is appointed among independent members by Yünsa Board of Directors.

Meeting agenda is determined by the Chairman of the Committee. Member and shareholders submit the issues they wish to be included in the agenda to the Chairman of Corporate Governance Committee.

Meetings are held at least four times a year at a location deemed appropriate by the Chairman and quorum is absolute majority of the total number of members. Others deemed appropriate by the Chairman may also attend meetings.

Corporate Governance Committee was established under the Board resolution dated 19 April 2012 and Hüsnü Paçacıoğlu (Independent Board Member) was appointed as the Chairman, whereas Barış Oran was appointed as Member.

The bylaw approved on 16 May 2012 was revised on 4 July 2013 as the Early Detection of Risk Committee previously operating within this Committee was separated.

As per Board resolution dated 27 June 2014, CFO Semih Utku was also appointed as the Member of Corporate Governance Committee and the bylaw was amended again on 27 June 2014.

On 28 April 2016, Levent Demirağ, Corporate Governance Committee Member who resigned from the Board Membership was replaced by Eren Mantaş and on 23 January 2017, Eren Mantaş who resigned from the Corporate Governance Committee Membership was replaced by Gökhan Eyigün.

Corporate Governance Committee met 5 times in 2017.

The Committee's activities in 2017 are as follows:

• In compliance with the Capital Market Board's (SPK) Corporate Governance Communique Nr. II-17.1, advising the Board of Directors on improving corporate governance practices, as well as implementing and monitoring required works for compliance to legislations in the Company,
• Monitoring the works of Investor Relations Unit,
• Identifying and monitoring principles, criteria and practices for remuneration of executive managers by taking the Company's long-term targets into consideration,
• Considering the achievement level of remuneration criteria, making suggestions to the Board of Directors about salaries to be given to managers with executive responsibilities.

Audit Committee

The goal of Audit Committee includes informing the Board of Directors on the accounting system of the Company, financial reporting, public disclosure of financial data, functioning and effectiveness of the internal audit system and independent audit; supporting and monitoring the Company's efforts for compliance with related laws and regulations, notably the Legislation of the Capital Market Board, corporate governance principles and ethical rules of the Company,

Audit Committee submits its activities, findings and suggestions in relation with its function and area of responsibility to the Chairman of the Board in writing.

The Chairman and Member of the Audit Committee are appointed by the Board of Directors among independent members.

The reporting works of the Audit Committee are executed by Internal Audit Unit of the Company. The necessary resources for the Audit Committee to function and any kind of support are provided by the Board of Directors.

Audit Committee convenes at least quarterly, with minimum four meetings per year. The agenda is determined by the Chairman of Audit Committee.

Audit Committee was established with the Board Meeting held on 14 January 2003 in order to fulfill the responsibilities stated in the SPK legislation for an audit committee.
At the General Assembly held on 19 April 2012, it was decided that Audit Committee should be comprised of two independent members and Mehmet Kahya and Hüsnü Paçacıoğlu were selected as the Chairman and Member, respectively. At the 2014 Ordinary General Assembly held on 25 March 2015, it was decided to maintain the memberships of the Audit Committee as stated above.
Audit Committee held 8 meetings in 2017.

Audit Committee's major activities in 2017 are as follows:

• Monitoring financial and operational activities of the Company,
• Reviewing annual and mid-term financial statements to be disclosed and approval of their accuracy and compliance with the Company's accounting principles,
• Selecting an independent audit company, preparing independent audit contracts, and launching independent audit process,
• Monitoring efficiency and performance of independent audit operations,
• Monitoring operation and effectiveness of internal control and internal audit systems,
• Evaluating findings about internal control system and reporting them to the Board of Directors,
• Reviewing and approving internal control and internal audit reports.

Early Detection of Risk Committee
Early Detection of Risk Committee works to identify risks that may jeopardize the presence, development and continuity of the Company, to prevent crises, to devise models and management systems, to ensure early detection, to implement measures and remedies, and to manage the risk. The committee reviews risk management systems at least once a year.

Early Detection of Risk Committee consists of maximum two members, including the chairman. The chairman is appointed by the Company's Board of Directors among independent members. The reporting works of the Committee are executed by the Finance and Investor Relations Manager. Meetings are held on the date and at the location deemed appropriate by the Chairman, at least six times a year. On every new year, annual meeting schedule of the Committee is determined Chairman and announced to all members.

Pursuant to the Board's resolution on 4 July 2013, Early Detection of Risk Committee was established, it was separated from the Corporate Governance Committee and Early Detection of Risk Committee bylaw was approved. Independent Board Member Hüsnü Paçacıoğlu was selected as the Chairman and Board Member Levent Demirağ as Member.

On 28 April 2016, Levent Demirağ, Early Detection of Risk Committee Member who resigned from the Board Membership, was replaced by Eren Mantaş. On 23 January 2017, Eren Mantaş who resigned from the Early Detection of Risk Committee Membership, was replaced by Gökhan Eyigün.

The Committee held 6 meetings in 2017.

5.4. Risk Management and Internal Control Mechanism

Risk management and internal control mechanism is performed at each and every level of the Company. Believing that risks also involve opportunities, the Company implements a company-wide Corporate Risk Management to manage the risks in the most effective manner. Yünsa Corporate Risk Management is a well-planned, compliant, consistent, and ongoing process structured in the Company in order to identify factors involving threats and opportunities for reaching corporate targets and to find and implement measures and strategies.

Corporate risks are monitored via main risk indicators as specified by the Company. These indicators
are continuously monitored and reported periodically. The necessary actions for managing the risks as indicated by the main risk indicators are taken by the Company. Board of Directors is periodically informed on these risks through Early Detection of Risk Committee.

The Company acts in compliance with the risk management policy which describes the risk management understanding, strategies, methods and approaches; defines roles and responsibilities; and forms a common language with this respect. A Risk Management Unit is established in order to identify, measure and manage risks better within the framework of this policy.

Within the framework of policies, standards and procedures approved by the Company management, the Risk Management Unit identifies major and critical risks for the Company, makes suggestions to mitigate, eliminate or transfer risks in cooperation with those in charge of risks, monitors action plans of functions, works to identify the Company's risk appetite, and follows whether risks are managed within the framework of this appetite with full support and responsibility of the management as well as active participation of the Company's employees.

The Company houses an Internal Audit Unit for conducting audits, investigations and examinations in order to safeguard the rights and interests of the company, to develop suggestions against internal and external risks.

5.5. Strategic Objectives of the Company

Board of Directors identified the Company's mission and vision and disclosed these to the public in the annual report and corporate website at www.yunsa.com.

Board of Directors sets the strategic objectives for five years in consultation with Top Management. It approves the annual budgets prepared in accordance with these strategic objectives.

Board of Directors has exact knowledge about the implementation of the decisions taken through comparative presentations delivered by Top Management during the meetings. These presentations also inform the Board of Directors on a year-on-year comparison of the same periods as well as on budget and actual comparison of the current year.

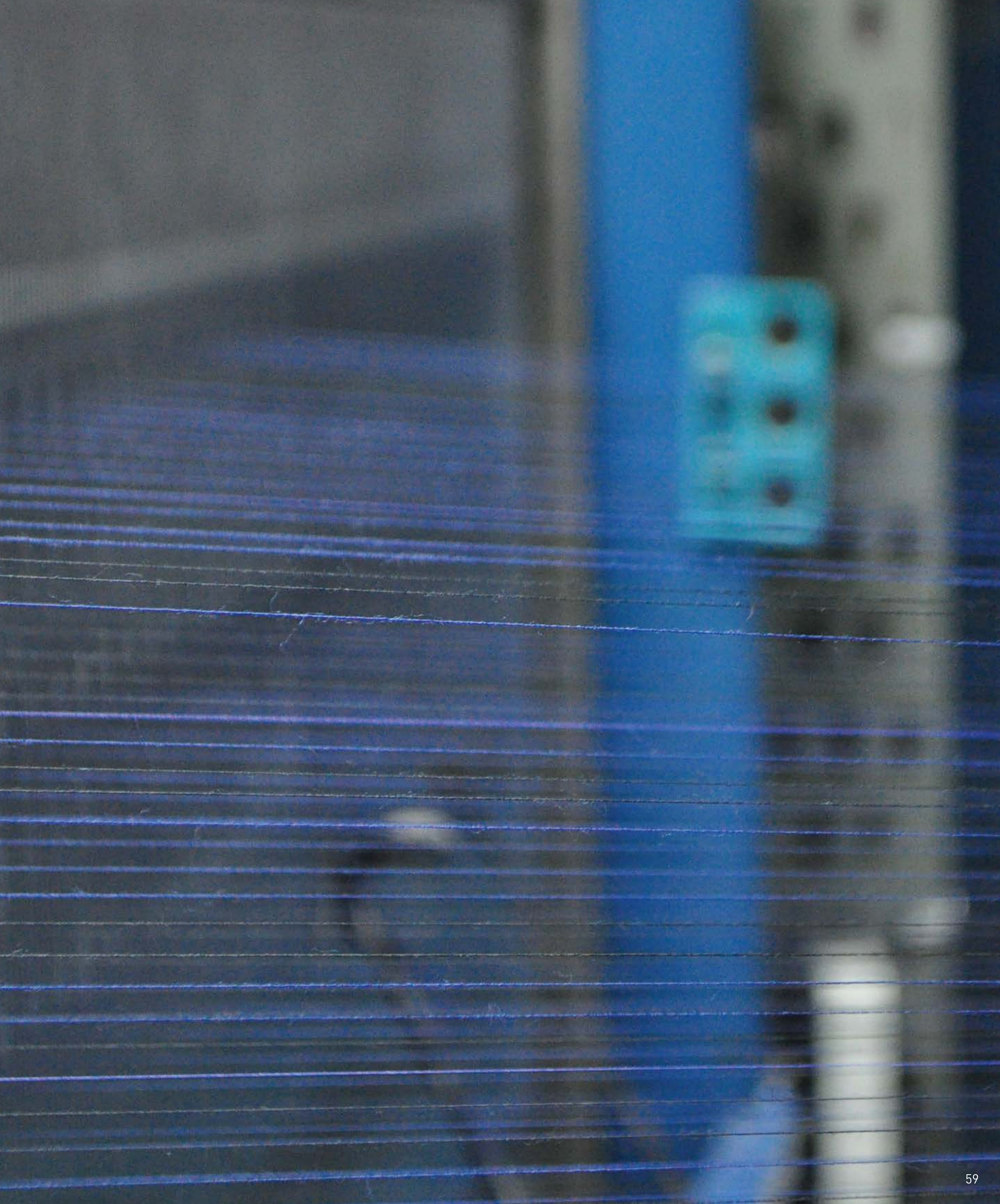
5.6. Financial Rights

Although compliance with the principle 4.6.1 is achieved, the Company's operational and financial targets ae not disclosed to the public.

In accordance with SPK Corporate Governance Principle 4.6.2, all rights, benefits and remuneration provided to Board Members with executive responsibility and senior executives as well as the criteria and remuneration rules to determine these are announced to the shareholders as a separate agenda item at the General Assembly held on 25 March 2015 to receive their opinions.

Regarding Principle 4.6.5, salaries and all other benefits offered to Board Members and executive managers are disclosed to the public with the annual report; however, the disclosure is made collectively, not per executive, in parallel to the general practice. The remuneration of Independent Board Members does not make use of payment plans based on share stock options or company performance.

In 2017, the Company has not lent money to any Board Member, provided credit to them, prolonged the terms of existing loans and credits, improved borrowing conditions, extended credit under the name of personal credit through a third person, nor provided warranties such as guarantee in their favor.



Auditor's Opinion on the Annual Report

To the Board of Directors of Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

Opinion

We have audited the annual report of Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi ("Company") and its subsidiaries (together referred to as "the Group") for the fiscal period 1/1/2017-31/12/2017.

In our opinion, the consolidated financial statements in the annual report are accurate and consistent with the Board's examination of the consolidated financial position of the Group, its full set of consolidated financial statements and the information we gathered during independent audit in all material respects.

Basis for Opinion

We conducted our independent audit in accordance with the standards on independent auditing issued by the Capital Market Board of Turkey ("SPK") and Standards on Independent Auditing ("BDS") which are components of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("KGK") ("Standards on Auditing Issued by KGK"). Our responsibilities under these Standards are further described in the Independent Auditor's Responsibilities for the Independent Audit of the Annual Report section of our report. We declare that we are independent of the Group in accordance with the Code of Ethics for Independent Auditors ("KGK's Code of Ethics") issued by KGK and the ethical requirements in the regulations issued in the regulations on independent audit. We have also fulfilled other ethical responsibilities in accordance with the KGK's Code of Ethics and regulations. We believe that the independent audit evidence we have obtained during the independent audit is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The annual report for the fiscal period 1 January 2016-31 December 2016 were audited by another independent auditor who expressed positive opinion on accordance of this report 15 February 2017.

Auditor's Opinion on Full Set of Consolidated Financial Statements

In our auditor's report dated 19 February 2018, we expressed positive opinion about the full set of consolidated financial statements of the Group for the fiscal period 1 January 2017-31 December 2017.

Responsibilities of the Board of Directors about the Annual Report

According to the Articles 514 and 516 of the Turkish Commercial Code (TTK) and "The Communique on Principles of Financial Reporting in Capital Markets" (Communique) Nr. II-14.1 of SPK, the Group management is responsible for the following regarding the annual report:

a) Prepares the annual report within three months following the balance sheet day and submits it to the general assembly.

b) Prepares the annual report in an accurate, complete, direct, fair and honest manner, comprising operational flow and complete consolidated financial statement of the year. In this report, the financial situation is evaluated according to consolidated financial statements. The report also clearly indicates the Group's development and probable risks. The Board's evaluation on these issues is also given in the report.

c) The annual report also includes the following:
- Incidents with special importance within the Group, following the end of the fiscal year,
- The Group's research and development operations,
- Financial benefits (including salaries, premiums, bonus), allowances, travel - accommodation - representation costs, means in kind and in cash, insurances and such warranties made to Board members and senior executives.

While preparing the annual report, Board of Directors also takes into consideration secondary legislation regulations performed by the Ministry of Customs and Trade and other related institutions.

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

A member of KPMG International Cooperative

Ruşen Fikret Selamet,
Independent Accountant and Financial Advisor
Cap Auditor
19 February 2018
İstanbul, TURKEY

Auditor Report about Early Detection of Risk Committee

To the Board of Directors of Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

We have audited the early detection of risk committee established by Yünsa Yünlü Sanayi ve Ticaret AŞ ("Company").

Responsibility of the Board of Directors

Pursuant to Article 387 Paragraph 1 of the Turkish Commercial Code ("TTK") Nr. 6102, Board of Directors is liable for early detection of the grounds that endanger existence, development and continuation of the Company. It is also responsible for establishing an expert committee for taking required measures against these, applying remedies, and operating and developing the system.

Responsibility of the Auditor

Our responsibility is to come to the conclusion for early detection of risk committee, based on the audit we performed. The audit we performed has been conducted in compliance with TTK, "Principles Related to Auditor Report for Early Detection of Risk Committee" issued by the Accounting and Audit Standards Authority and with ethical rules. These principles require us to determine whether the company established the early detection of risk committee and if the company established that, to evaluate whether the system and committee is operating pursuant to TTK Article 378. Evaluating the convenience of the remedies against the risks pointed out by early detection of risk committee and the implementations by the management against risks are not within the scope of our audit.

Information about Early Detection of Risk Committee

The objective of Early Detection and Management of Risk Committee ("the Committee") is to identify in advance any kind of risks that may jeopardize the presence, development and continuity of the Company, to implement required measures and to manage risks in the light of corporate risk projects. The Committee consists of 2 members, one being the chairman. In 2017, the Committee met on 15 February 2017, 29 March 2017, 19 April 2017, 26 July 2017, 27 October 2017, and 19 December 2017 and submitted its reports to the Board of Directors.

Conclusion

As a result of the audit we performed, it is concluded that the early detection of risk committee of Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi is sufficient in all significant aspects within the scope of the Turkish Commercial Code Article 378.

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

A member of KPMG International Cooperative

Ruşen Fikret Selamet,
Independent Accountant and Financial Advisor
Cap Auditor
19 February 2018
İstanbul, TURKEY

Yünsa Yünlü Sanayi ve Ticaret A.Ş. and Its Subsidiaries

Convenience Translation into English of Consolidated Financial Statements as at and for the year ended 31 December 2017 With Independent Auditor's Report Thereon

YÜNSA

INDEPENDENT AUDITOR'S REPORT

To the Board Director of Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi

A) Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Yünsa Yünlü Sanayi ve Ticaret Anonim Şirketi and its subsidiaries (together referred as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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 for the Audit of the Consolidated Financial Statements section of our report. We declare that we are independent of the Group in accordance with the Code of Ethics for Auditors issued by POA ("POA's Code of Ethics") and the ethical requirements in the regulations issued by POA that are relevant to audit of consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with the POA's Code of Ethics and regulations. We believe tha 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 professionl judgement were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opininon thereon and we do not provide a seperate opinion on these matter.

Revenue recognition

Refer to Note 2.3 a) to the consolidated financial statements for summary of significant accounting policies and significant accounting assessments, estimates and assumptions for revenue recognition.

The key audit matter

Revenue of the Group for the year ended 31 December 2017 mainly comprised of the wool fabric sales.

Revenues are recognized on an accural basis at the time deliveries are made, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group at the fair value of considerations received or receivable. Net sales represent the invoiced value of goods sold less sales returns, rebates and commissions.

Recognition of revenue and profit for the products sold are dependent on the proper evaluation of the incoterms in the sales contract. As a result of the Group's sales operations there could be circumstances that invoice billed to the customers after completion of production but risk and rewards of the sales product were not transferred to the customers due to the complex conditions of incoterms that could not be met. In accordance with revenue recognition principles, sales of these products should be evaluated based on the timing of the transfer of risk and rewards. We have identified the timing of revenue recognition as a key audit matter because each sales contract may have different terms and conditions which increases the risk of error in the recognition of revenue.

How the matter was addressed in our audit

We have performed the following audit procedures to be responsive to revenue recognition:

• Assessing the design, implementation and operating effectiveness of the key internal controls over sales to collection.

• Inspecting sales documentation, on a sampling basis, in order to assess the Groups's revenue recognition policies with reference to the requirements of the prevailing accounting standards by analying risk and reward transfer.

• Inspecting key customer contracts to identify conditions relating to delivery terms and assessing the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards.

• Obtaining confirmation letters for trade receivables on a sample basis and performing reconciliations of accounü balancis received in the confirmation letters and consolidated financial statements.

• Performing analytical procedures to identify any unusual transactions.

• Inspecting on a sampling basis relevant underlying documentation for sales returns accepted subequent to the year and in order to assess whether the sales returns are properly accounted for in the appropriate financial period.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2016, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 15 February 2017.

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

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

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

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

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

Responsibilities of auditors in an audit are as follows:

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

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

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

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statemnts or if such disclosures are inadequate, to modify our opinion. Our conclusions are based or the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activites within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicicate 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 where applicable, related safeguard.

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

B) Other Legal and Regulatory Requirements.

1) Pursuant to the fourth paragraph of Article 398 of Turkish Commercial Code ("TCC") no. 6102; Auditors' Report on System and Committee of Early Identification of Risks is presented to the Board of Directors of the Group on 19 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 Group's bookkeeping activities and consolidated financial statements are not in compliance with TCC and provisions of the Group's articles of association in relation to financial reporting.

3) Pursuant to the fourth paragraph of Article 402 of tne 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 A.Ş.

A member of KPMG International Cooperative

Ruşen Fikret Selamet,
Independent Accountant and Financial Advisor
Cap Auditor
19 February 2018
İstanbul, TURKEY

Consolidated statement of financial position as at 31 December 2017

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

	Notes	Current year (Audited) 31 December 2017	Prior year (Audited) 31 December 2017
Assets			
Current assets		**168.264.102**	**174.790.751**
Cash and cash equivalents	6	**10.897.936**	**2.651.312**
Trade receivables	8	**74.193.635**	**76.188.550**
- Trade receivables from third parties	8	73.672.694	76.188.550
- Trade receivables from related parties	8	520.941	-
Other receivables	9	**882.431**	**1.136.552**
- Other receivables from third parties	9	882.431	1.136.552
Derivative financial instruments	22	**3.547.571**	**-**
- Derivative financial assets held for cash flow hedges	22	3.547.571	-
Inventories	10	**69.840.586**	**82.396.034**
Prepaid expenses	12	**89.164**	**1.071.784**
Other current assets	22	**8.812.779**	**11.346.519**
- Other current assets from third parties	22	8.812.779	11.346.519
Non-current assets		**76.754.907**	**80.381.620**
Property, plant and equipment	14	**47.020.879**	**50.563.912**
Intangible assets	15	**16.849.304**	**14.914.328**
Prepaid expenses	12	**944.090**	**263.570**
- Prepaid expenses to third parties	12	944.090	263.570
Deferred tax asset	31	**11.940.634**	**14.639.810**
Total assets		**245.019.009**	**255.172.371**

Consolidated financial statements as of and for the year ended 31 December 2017, were approved by the Board of Directors on 19 February 2018.

The accompanying notes are the integral part of the consolidated financial statements.

Consolidated statement of financial position as at 31 December 2017

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

	Notes	Current year (Audited) 31 December 2017	Prior year (Audited) 31 December 2017
Liabilities			
Total short term liabilities		**166.998.257**	**145.010.736**
Short-term borrowings	**18**	**92.960.773**	**102.088.100**
- Short-term borrowings from related parties	**7,18**	**501.509**	**514.605**
- Bank loans	7,18	501.509	514.605
- Short-term borrowings from third parties	**18**	**92.459.264**	**101.573.495**
- Bank loans	18	92.459.264	101.573.495
Trade payables	**8**	**64.651.951**	**28.334.401**
Trade payables to related parties	7	295.288	160.501
Trade payables to third parties	8	64.356.663	28.173.900
Liabilities for employee benefits	**21**	**7.504.229**	**6.822.597**
Derivative instruments	22	**-**	**2.591.915**
- Derivative financial instruments held for cash flow hedges	22	-	*2.591.915*
Deferred income	**9**	**844.707**	**2.137.685**
- Deferred income from third parties	9	*844.707*	*2.137.685*
Other current liabilities	**22**	**1.036.597**	**3.036.038**
- Other current liabilities to third parties	22	1.036.597	3.036.038
Total long-term liabilities		**12.617.015**	**65.027.111**
Long-term borrowings	**18**	**-**	**53.793.550**
- Long-term borrowings from related parties	7	-	16.694.550
- Bank loans	7	-	16.694.550
- Long-term borrowings from third parties	18	-	37.099.000
- Bank loans	18	-	37.099.000
Long term provisions	**21**	**12.617.015**	**11.233.561**
- Long term provisions for employment benefits	21	12.617.015	11.233.561
Total equity		**65.403.737**	**45.134.524**
Paid-in share capital	23	**29.160.000**	**29.160.000**
Inflation adjustment		**30.657.866**	**30.657.866**
Share premium (discounts)		**92.957**	**92.957**
Other comprehensive income and expenses not to be reclassified to accumulated profit or loss		**(2.708.929)**	**(2.821.943)**
Other comprehensive income and expenses to be reclassified to accumulated profit or loss		**3.800.311**	**(1.507.066)**
Restricted reserves		**21.978.549**	**21.978.549**
Retained earnings or accumulated losses		(32.425.839)	**1.680.753**
Net (loss)/profit for the current year	32	14.848.822	**(34.106.592)**
Total liabilities and equity		**245.019.009**	**255.172.371**

The accompanying notes are the integral part of the consolidated financial statements.

Consolidated statement of profit or loss for the year ended 31 December 2017
(Amounts expressed in of Turkish Lira ("TL") unless otherwise indicated)

	Notes	Current year (Audited) 1 January - 31 December 2017	Prior year (Audited) 1 January - 31 December 2016
Continuing operations			
Revenue	24	297.580.363	247.008.760
Cost of sales	24	(225.518.232)	(214.507.931)
Gross profit from operation activities		**72.062.131**	**32.500.829**
General administrative expense	26	(9.132.713)	(21.729.928)
Marketing expenses	26	(30.145.926)	(31.058.747)
Research and development expenses	26	(653.578)	(1.312.763)
Other operating income	27	30.592.488	17.385.292
Other operating expenses	27	(19.191.323)	(12.637.276)
Operating profit /(loss)		**43.531.079**	**(16.852.593)**
Income from investment activities	27	1.809.733	816.268
Finance expenses	29	(29.048.965)	(27.453.626)
Profit /(loss) before tax from continuing operations		**16.291.847**	**(43.489.951)**
Tax (expense) income from continuing operations	31	**(1.443.025)**	**9.383.359**
Taxation on (expense) income for the current year		--	
Deferred tax (expense) / income		(1.443.025)	9.383.359
Profit / (loss) for the year from continuing operations		**14.848.822**	**(34.106.592)**
Profit / (Loss) for the year		**14.848.822**	**(34.106.592)**
Distribution of profit / (loss)			
Equity holders of the parent		**14.848.822**	**(34.106.592)**
Earnings / (losses) per share (Kr)		**0,0051**	**(0,0117)**
Diluted earnings / (losses) per share (Kr)		**0,0051**	**(0,0117)**

The accompanying notes are the integral part of the consolidated financial statements.

Consolidated statement of other comprehensive income for the year ended 31 December 2017

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

	Notes	Current year (Audited) 1 January - 31 December 2017	Prior year (Audited) 1 January - 31 December 2016
Net profit / (loss) for the period		**14.848.822**	**(34.106.592)**
Accumulated other comprehensive income/(expense) not to be reclassified to profit or loss		**113.014**	**283.219**
Defined benefit plans remeasurement gains (losses)	21	141.268	354.024
Taxes on other comprehensive income items not to be reclassified to profit or loss		(28.254)	(70.805)
-Deferred tax (expense) / income	31	(28.254)	(70.805)
Accumulated other comprehensive income/(expense) to be reclassified to profit or loss		**5.307.377**	**(2.694.116)**
Other comprehensive (expense) income related to cash flow hedges		6.139.486	(3.315.899)
-Gain / (loss) on cash flow hedges		6.139.486	(3.315.899)
Foreign currency translation differences	23	395.788	(41.397)
-Foreign currency translation differences		395.788	(41.397)
Taxes on other comprehensive income items to be reclassified in profit or loss		(1.227.897)	663.180
-Deferred tax (expense) / income	31	(1.227.897)	663.180
Other comphensive income / (expense)		**5.420.391**	**(2.410.897)**
Total comphensive income / (expense)		**20.269.213**	**(36.517.489)**
Distribution of total comprehensive income			
Equity holders of the parent		**20.269.213**	**(36.517.489)**

The accompanying notes are the integral part of the consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2017

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

	Note	Paid-in Share capital	Inflation adjustment	Share premium	Other comprehensive income/(expense) not to be reclassified to profit or loss	Other comprehensive income/(expense) to be reclassified to profit or loss	Restricted reserves	Retained Earnings / (accumulated deficit)	Net/(loss) profit for the period	Total equity
As at 1 January 2016	**23**	**29.160.000**	**30.657.866**	**92.957**	**(3.105.162)**	**1.187.050**	**21.436.111**	**245.124**	**4.894.067**	**84.568.013**
Transfer to restricted reserves		-	-	-	-	-	542.438	1.435.629	(1.978.067)	-
Transfer to retained earnings		-	-	-	-	-	-	2.916.000	(2.916.000)	-
Distributed dividends	1	-	-	-	-	-	-	(2.916.000)	-	**(2.916.000)**
Actuarial gain / loss		-	-	-	283.219	-	-	-	-	**283.219**
Foreign currency translation differences		-	-	-	-	(41.397)	-	-	-	**(41.397)**
Financial risk hedge fund		-	-	-	-	(2.652.719)	-	-	-	**(2.652.719)**
Loss for the year		-	-	-	-	-	-	-	(34.106.592)	**(34.106.592)**
Total comprehensive income		-	-	-	283.219	(2.694.116)	-	-	(34.106.592)	**(36.517.489)**
As at 31 December 2016	**23**	**29.160.000**	**30.657.866**	**92.957**	**(2.821.943)**	**(1.507.066)**	**21.978.549**	**1.680.753**	**(34.106.592)**	**45.134.524**
As at 1 January 2017	**23**	**29.160.000**	**30.657.866**	**92.957**	**(2.821.943)**	**(1.507.066)**	**21.978.549**	**1.680.753**	**(34.106.592)**	**45.134.524**
Transfer to restricted reserves		-	-	-	-	-	-	-	-	-
Transfer to retained earnings / (accumulated deficit)		-	-	-	-	-	-	(34.106.592)	34.106.592	-
Actuarial gain / loss		-	-	-	113.014	-	-	-	-	**113.014**
Foreign currency translation differences		-	-		-	395.788	-	-	-	**395.788**
Financial risk hedge fund		-	-	-	-	4.911.589	-	-	-	**4.911.589**
Profit for the year		-	-	-	-	-	-	-	14.848.822	**14.848.822**
Total comprehensive income		-	-	-	113.014	5.307.377	-	-	14.848.822	**20.269.213**
As at 31 December 2017	**23**	**29.160.000**	**30.657.866**	**92.957**	**(2.708.929)**	**3.800.311**	**21.978.549**	**(32.425.839)**	**14.848.822**	**65.403.737**

The accompanying notes are the integral part of the consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2017

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

	Notes	Current year (Audited) 1 January - 31 December 2017	Prior year (Audited) 1 January - 31 December 2016
Cash flows from operating activities:			
Profit / (loss) for the year	32	14.848.822	(34.106.592)
Adjustments			
Adjustment for depreciation and amortisation	28	11.814.966	12.795.080
Adjustment for impairment (reversal) of inventories	10	(9.160.001)	9.862.195
Adjustment for impairment (reversal) of inventories benefits	21	3.883.694	8.540.817
Adjustment for interest income		(129.311)	(7.618)
Adjustment for interest expense	29	12.743.390	12.462.891
Adjustment for tax expense / (income)	31	1.443.025	(9.383.359)
Adjustment for loss (gain) on sale of property, plant and equipment	27	(1.809.733)	(816.268)
Adjustment for gains / (losses) on derivative financial instruments		8.807.600	-
Adjustment for unrealised foreign currency translation differences		3.746.384	-
Adjustment for provision of doubtful trade receivable, net	8	(159.513)	-
Other adjustments for the reconciliation of profit/(loss)		9.370	(1.263.842)
Net cash provided by operating activities before changes in working capital flow		**46.038.693**	**(1.916.696)**
Decrease/(increase) in trade receivables		1.898.703	20.317.778
Decrease/(increase) in inventories		21.715.449	11.208.434
Decrease/(increase) in prepaid expeses		302.099	587.661
(Decrease)/increase in trade payables		36.317.550	(8.102.328)
Decrease/(increase) in other assets related with operating activities		2.399.048	(1.254.022)
Cash inflows / outflows from derivative assets and liabilities		(8.807.600)	-
(Decrease)/increase in other liabilities related with operating activities		(2.828.375)	2.637.862
Net cash provided from operating activities		**97.035.567**	**23.478.689**
Employment termination benefits paid	21	(2.141.385)	(7.452.896)
Collections from doubtful receivables		635.169	-
Cash flows from operating activities		**95.529.351**	**16.025.793**
Cash flows used in investing activities			
Cash outflow from purchase of property, plant and equipment	14	(5.535.334)	(8.551.292)
Cash outflow from purchase of intangible assets	15	(7.274.323)	(5.470.893)
Proceeds from sales of tangible and intangible assets		3.620.644	886.935
Cash in-flows from government incentives	15	791.837	1.690.417
Interest received		129.311	7.618
Net cash used in investment activities		**(8.267.865)**	**(11.437.215)**
Cash flows used in financing activities			
Cash in/out flows from loans		(65.653.841)	9.432.039
Dividends paid		-	(2.916.000)
Interest paid	18	(12.517.945)	(12.468.679)
Net cash used in financing activities		**(78.171.786)**	**(5.952.640)**
Effect of foreign currency translation in cash and cash equivalents		(843.076)	-
Net decrease in cash and cash equivalents		9.089.700	(1.364.062)
Cash and cash equivalents at the beginning of the period	6	2.651.312	4.015.374
Cash and cash equivalents at the end of the period		**10.897.936**	**2.651.312**

The accompanying notes are the integral part of the consolidated financial statements.

1. GROUP'S ORGANISATION AND NATURE OF OPERATIONS

Yünsa Yünlü Sanayi ve Ticaret A.Ş. ("the Company") and its subsidiaries (will be together referred as "the Group"). Yünsa Yünlü Sanayi ve Ticaret A.Ş. is the parent company, which owns/controls the majority of the shares, consists of four subsidiaries.

Yünsa Yünlü Sanayi ve Ticaret A.Ş. was established in 21 June 1973 for the manufacturing, marketing and selling wool textile products. The Company's main shareholder is Hacı Ömer Sabancı Holding A.Ş. The shares of the Company and its main shareholder are quoted on Borsa İstanbul A.Ş. and traded in the national market.

As of 31 December 2017 average number of personnel is 1.057 (December 31, 2016: 1.271).

The Company is registered in Turkey and the address of the registered office is

Sabancı Center
Kule 2, 34330 4.Levent,
İSTANBUL.

As of 31 December 2017 and 2016, the subsidiaries controlled by the Company with their respective shareholding ratios (direct and indirect) and their field of activities are disclosed as follows:

	31 December 2017	31 December 2016	
Subsidiaries	Direct Shareholding Ratio %	Direct Shareholding Ratio %	Field of Activity
Yünsa Germany Gmbh	100	100	Marketing-Sales
Yünsa Italia SRL	100	100	Fabric Design
Yünsa UK Limited	100	100	Marketing-Sales
Yünsa USA Inc.	100	100	Marketing-Sales

<u>Dividends paid</u>

Group has not made dividend payment in the current period (31 December 2016 – Group has made dividend payment amounting to TL 2.916.000 in cash).(2016: Dividend equals to TL 1 nominal value share is 0,001 Kr)

<u>Approval of the financial statements:</u>

The consolidated financial statements have been approved by the Board of Directors and authorized for issue on 19 February 2018.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of preparation of consolidated financial statements

a) Statement of compliance with TAS

The accompanying consolidated financial statements are based in accordance with Turkish Accounting Standards ("TAS") issued by Public Oversight Accounting and Auditing Standards Authority of Turkey ("POA") as set out in the Communiqué serial II, No: 14.1 announcement of Capital Markets Board ("CMB") dated 13 June 2013 related to "Capital Market Communiqué on Principles Regarding Financial Reporting" ("Communiqué") which is published in official gazette, no 28676. TAS is composed of Turkish Accounting Standards, Turkish Financial Reporting Standards, appendixes and interpretations

b) Preparation of financial statements

The accompanying consolidated financial statements and notes are presented in accordance with the illustrative financial statements published by CMB on 7 June 2013. The accompanying consolidated financial statements are approved by the Company's Board of Directors on 19 February 2018. General Assembly and related legal institutions have the right to correct these financial statements and statutory financial statements.

c) Correction of financial statements during the hyperinflationary periods
CMB, with its resolution dated 17 March 2005, announced that all publicly traded entities operating in Turkey was not obliged to apply inflationary accounting effective from 1 January 2005. In accordance with this resolution, TAS 29 "Financial Reporting in Hyperinflationary Economies" is not applied to the consolidated financial statements since 1 January 2005.

d) Basis of measurement
Consolidated financial statements are prepared on a historical cost basis except for derivative financial instruments carried at fair value. For explanation of fair values, please see note 34.

e) Functional and presentation currency
The financial statements of each of the Group's operations are presented in the currency of the primary economic environment in which they operate (the functional currency). Financial position and and operating results of each entity presented in TL which is the presentation and functional currency of the Company for the consolidated financial statements.

As of 31 December 2017 and 2016, the functional currencies of the Group's subsidiaries are Euro, GBP and US Dollar and the reporting currency is TL. The translation differences resulting from these consolidated subsidiaries are included in the foreign currency translation differences account under equity.

As of 31 December 2017, the exchange rate announced by the Central Bank of the Republic of Turkey 1 Euro: 4.4155 TL. 1 January-31 December 2017 within the period, average exchange rate announced by the Central Bank of the Republic of Turkey 1 Euro: 4.1144 TL. As of 31 December 2017, the exchange rate announced by the Central Bank of the Republic of Turkey 1 US Dollar: 3.7719 TL. 1 January-31 December 2017 within the period, average exchange rate announced by the Central Bank of the Republic of Turkey 1 US Dollar: 3.4619 TL.

f) Basis of consolidation
The consolidated financial statements include financial statements of the entities controlled by the Group. Control of an entity so as to obtain benefits from its activities on the financial and operational policies that are provided with the power to control.

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

The Group measures non-controlling interests at their proportionate share of the subsidiary's net assets.
Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in profit or loss.

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 Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. The Group measures non-controlling interests at their proportionate share of the subsidiary's net assets The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group 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 .

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

2.2 Change in accounting policies

a) Standards and interpretations issued but not yet effective and not early adopted

New standards, interpretations and amendments to existing standards are not effective at reporting date and earlier application is permitted; however the Group consolidated has not early adopted are as follows. The Group 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.

The Group has performed an initial assessment on these transactions and does not expect that there will be signficant impact on its consolidated financial statements resulting from the application of TFRS 15.

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.

The Group has assessed whether it is probable that there will be a reduction in the amount of receivables due to the application of the expected loan loss model for unrecognized receivables in the case of application of TFRS 9 and does not expect that there will be a significant impact on its consolidated financial statements resulting from the application of TFRS 9.

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 Group does not expect that application of TFRS Interpretation 22 will have significant impact on its consolidated financial statements.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.2 Change in accounting policies (continued)

a) Standards and interpretations issued but not yet effective and not early adopted (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 2017 to 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 Group does not expect that application of these amendments to TFRS 2 will have impact on its consolidated financial statements.

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 consolidated 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 Group does not expect that application of these amendments to TAS 40 will have impact on its consolidated financial statements.

Annual 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 Group does not expect that application of these improvements to TFRSs will have significant impact on its consolidated financial statements.

Annual Improvements to TFRSs 2014-2016 Cycle

TFRS 1 "First Time Adoption of Turkish 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.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.2 Change in accounting policies (continued)

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

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

Amendments to TFRS 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 Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to TFRS 9. The Group does not expect that application of these amendments to TFRS 9 will have significant impact on its consolidated financial statements.

b) 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 Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.2 Change in accounting policies (continued)

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

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 Group does not expect that application of these improvements to IFRSs will have significant impact on its consolidated financial statements.

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements

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

IAS 12 Income Taxes

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

IAS 23 Borrowing Costs

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

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 Group does not expect that application of IFRS 17 will have impact on its consolidated financial statements.

2.3 Summary Of Significant Accounting Policies

The consolidated financial statements of the significant accounting policies used in the preparation are summarized below:

a) Revenue

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns and allowances and trade discounts. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sale is recognised.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary Of Significant Accounting Policies(continued)

a) Revenue (continued)

Revenue from the proceeds of the sale of goods, is recognized when all the following conditions are met:

• The transfer of the all significant risks and rewards of the ownership to the buyer,
• There is no continuing management involvement with the goods,
• Amount of revenue is measured reliably,
• Recovery of the consideration is probable,
• The associated costs and possible return of goods can be estimated reliably.

Retail sales are made in cash or by credit card. Revenue is recorded, including credit card processing fees in gross amounts.

Other revenues earned by the Group, are recognized on the following basis:

Rent and royalty income - on accrual basis
Interest income - on the basis of the effective interest method
Dividend income - dividends in the period when the right to collect occurs

b) Related Parties

a) A person or a member of that person's close family is related to the Company in the following cases:

Concerned person's;

(i) Having control or joint control over the company,
(ii) In case of having significant influence over the company,
(iii) In case of being a member of the Company of Company's main ownership's key management personnel,

b) If any of the following conditions are met, the entity is counted as related with the Company:

(i) In case of, entity and the Company are members of the same group.
(ii) In case of entity is another company's subsidiary or joint venture (or in case of a membership of a groups' member)
(iii) In case of both the companies having a business partnership with the same third party,
(iv) One of the companies having a business partnership with a third party and the other company is a subsidiary of of that third party,
(v) In case of having entity's, Company's or the associated Company's employees having a post-employment defined benefit plans (In case of Company has such a plan, the sponsoring companies are also related with the Company.)
(vi) Company's control or jointly controlled by a person identified in the article (a),
(vii) A person who is identified as in (a) article,at (i) part, in the presence of a significant impact on a person's business or such entity (or of a parent of these businesses) in the case of being a member of the key management personnel.

c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is mainly based on the weighted average, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. The cost of inventories is determined on the weighted average basis. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale. When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in statement of income/(loss) in the period the write-down or loss occurred. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the original write-down.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary Of Significant Accounting Policies (continued)

d) Financial Instruments

Financial assets

Financial assets except for financial assets at fair value through profit or loss' (FVTPL) which are measured at the sum of their fair value are recognized at fair market value and expenditures directly attributable to their acquisition.

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 classification depends on the nature and purpose of the acqisition of the financial assets and is determined at the time of initial recognition.

The effective interest method

The effective interest method, is the calculation of the amortized cost of a financial asset and recognition of the related interest income over the related period. Effective interest rate is the rate for the expected life of the financial instrument or, if it is appropriate, a shorter period of time of the total estimated future cash receipts through the related financial asset that exactly discounts to net present value.

Income regarding to financial assets except financial assests measured at fair value through profit or loss is calculated by using the effective interest method.

Loans and receivables

Trade and other receivables and loans with fixed or determinable payments , that are not traded, are classified in this category. Loans and receivables are shown at amortized cost using the effective interest method, less any impairment losses are measured.

Impairments in financial assets

Financial assets except measured at fair value through profit or losss are assessed at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate for loans and receivables.

Except for trade receivables, which is reduced through the use of an allowance account, impairment on all other financial assets are directly written off in the related account. In case trade receivables cannot be collected, the related amount is written off from allowance account. The change in allowance account is accounted in the profit or loss statement.

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss to the extent that reversal does not exceed its amortised cost.

If the fair value of an impaired available-for-sale equity security subsequently increases after the impairment loss was recognised, then the increase in fair value recognised under equity.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary Of Significant Accounting Policies (continued)

d) Financial Instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities

The Group's financial liabilities and equity instruments, are classified according to the substance of contractual arrangements, and based on the definitions of a financial liability and equity instrument. The contract is an equity instrument that represents the right for the remaining portion in the assets, after deducting all of the Group's liabilities.

Financial liabilities are classified as financial liabilities at fair value through profit or loss or other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings, net of transaction costs are accounted for at fair value.

Other financial liabilities are subsequently calculated on the effective interest rate method, at amortized cost.

The effective interest rate method is a way for calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate for the expected life of the financial instrument or, if appropriate, a shorter period of time, the estimated future cash payments are discounted to the net present value of the related financial liabilities.

Derivative financial instruments and hedge accounting

The Group's activities are exposed to financial risks due to changes in foreign exchange rates and interest rates. The Group uses derivative financial instruments (primarily foreign currency forward contracts) in order to hedge risk arising from exchange rate fluctuations due to specific binding commitments and projected cash flows.

The Group does not use derivative financial instruments for speculative purposes. Derivative financial instruments are calculated at fair value on the contract date and it is recalculated using the fair value in subsequent reporting periods.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

The Group's bounding commitments to hedge foreign exchange risk classifies as cash flow hedge. In the hedging transactions that do not result in recognition of an asset or liability, the amounts recognised in equity is reflected to the profit or loss when hedged item effects the profit or loss. Fair value change of the derivative financial instruments that do not meet the requirements for hedge accounting are recognized in profit or loss. Hedge accounting is terminated when the hedging instrument is expired, sold or used, or the requirements for hedge accounting could not be met. Cumulative gain or loss arising from hedging instrument at the related period will be kept under equity until the expected gain/loss transaction is completed. If a hedged transaction does not occur, the net cumulative gain or loss recognized in equity, is recorded as profit or loss in the period.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary Of Significant Accounting Policies (continued)

d) Financial Instruments (continued)

e) Property, plant and equipment

Property, plant and equipment are carried at acquisition cost less accumulated depreciation and impairment loss if exists. Depreciation is recognized on a straight-line basis over the useful lives of the tangible assets from the date of acquisition or assembly. Since lands are considered as to have an indefinite useful life, they are not subject to depreciation.
The estimated useful lives are as follows:

	Years
Land and land improvements	10-25
Buildings	25-50
Machinery, plant and equipment	4-12
Motor vehicles	5
Furniture and fixtures	3-10
Leashold improvements	5

The useful lives of the leasehold improvements are depreciated over shorter of the lease term, which generally includes reasonably assured option periods, or the estimated useful lives of the assets.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if necessary.

Gains or losses on disposals of property,plant and equipment are included in the relevant income and expense accounts and the cost and accumulated depreciation of property and equipment has been derecognized from the relevant accounts as appropriate.

The impairment test is performed when the carrying value of the assets that are subject to amortization, are not recoverable.The provision for impairment is recorded if the asset's carrying amount exceeds the recoverable amount. The recoverable amount is the obtained as the greater of their fair value after deducting the cost of sales or the value in use. In order to evaluate the impairment, the assets are grouped at the lowest levels (cash generating units) where there are seperately identifiable cash flows. Non-financial assets that are subject to impairment, are reviewed for possible reversal of the impairment at every reporting period.

Maintenance and repair expenses incurred, are recognized as expenses.The capital expenditures that raise the future benefits by increasing the capacity of the tangible assets, are added to cost of tangible assets.

f) Intangible Assets

Intangible assets comprise acquired intellectual property and computer software. They are recorded at acquisition cost and amortized on a straight-line basis over their estimated economic lives for a period not exceeding 5 years from the date of acquisition. Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

Internally generated intangible assets and research and development expenses

Research expenses are recorded in the profit or loss statement in the period they are incurred.

Development activities (or Intra-group's project at the development phase) , resulting from internally generated intangible assets are only recognized when the following conditions are all met:

- technical possibility to completion of the intangible asset's readiness for use or to sell,
- having intention to sell, operate or completion of intangible assets.
- intangible assets that can be used or sold,
- the asset that would generate probable future economic benefits are certain,

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary Of Significant Accounting Policies (continued)

f) Intangible Assets (continued)

The existence of the required appropriate technical, financial and other resources in order to complete the development of intangible assets, use or sell. The development cost of the asset during the development process are to be measured in a reliable way.

The amount of internally generated intangible assets, consist of the expenditures that meet the requirements of the above mentioned recognition criteria from the moment the total amount of the expenditure is composed. When internally generated intangible assets are not recorded, development expenditure is recognized as an expense in the period in which they occur.

After initial recognition, the internally-generated intangible assets are shown as the seperately acquired intangible assets. after reducing the accumulated amortization and accumulated impairment losses. These assets are amortized within 5 years.

g) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an qualifying assets are included in the cost of the asset until the asset is ready to use or sale.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

h) Corporate income taxes

Turkish Tax Legislation does not permit to file a consolidated tax preparation to parent company and its subsidiary, as reflected in the accompanying financial statements, the tax provision is calculated separately based on each company.
Income tax expense consists of the sum of current tax and deferred tax expense.

Current tax

Current year tax liability is calculated over the part of the taxable profit. 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 Group's current tax liability is computed by using enacted or substantively enacted tax rate.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are recognized for all taxable temporary differences whereas deferred tax assets are recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are calculated over the tax rates (tax regulations) that are expected to be effective in the period in which the assets and liabilites are realized. During the calculation of deferred tax assets and liabilities, the tax consequences of the Group's anticipated recovery of its carrying amount or the fulfillment of its obligation as at the balance sheet date are taken into account.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority or if there is a legal right for the Group to offset these items.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary Of Significant Accounting Policies (continued)

h) Corporate income taxes (continued)

Deferred tax (continued)

Deferred tax and tax charge for the current period

The tax charge for the current period recognized as expense or income in the profit or loss at the current period except for the items recognized under equity (in which case the deferred tax related to those items is recognized under equity as well) or the items, that were recognized under equity for business mergers. Tax effect is taken into consideration in business mergers in calculating goodwill or in determining the fair value of the acquired share of defined assets, liabilities or contingent liabilities exceeding the purchasing costs.

i) Employee Benefits

Employee Termination Benefits:

According to the legislations and labor agreements in Turkey, employee termination benefits are paid in case of retirement and employment terminations. In accordance with the updated TAS 19 Employee Benefits Standard ("TAS 19") such payments are considered as defined benefit pension plans.

The employee termination liabilities, recognized in the financial statements, are calculated by an assumption of the employee retirements, that will arise in the future and their net present values, calculated in accordance with these assumptions. All calculated actuarial gains and losses are classified to income or expense under the accumulated other comprehensive income or expenses under equity.

Dividend and bonus payments

The Group recognizes as expense and liability by using a formula, which takes into consideration the adjusted profit for the shareholders. Group makes provisions in circumstances, when an agreement or a past practice creates a liability or an obligation.

j) Effects of rate exchanges

Each Group entity's financial statements are presented by the functional currencies of their economic environments. Financial positions and operational results of the each entity is presented in TL, which is Group's functional and presentation currency for the consolidated financial statements.

Transactions realized in foreign currencies (currencies other than TL) during the preparation of the financial statements of each of the entities are recorded based on the exchange rates at the transaction date. Monetary assets and liabilities in foreign currencies are converted to Turkish Lira at the rates prevailing at the balance sheet date. Non-monetary items that are measured at fair value and recorded in foreign currency, are converted to TL (based on the dates the fair values are determined.). Non-monetary items that are measured in terms of historical cost in a foreign currency are not subject to conversion again.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary Of Significant Accounting Policies (continued)

j) Effects of rate exchanges (continued)

Date	US Dollar/TL	Euro /TL
31 December 2017	3,7719	4,5155
31 December 2016	3,5192	3,7099

Exchange differences, except as specified below, are recognized in profit or loss in the period in which:

- Foreign exchange gain/losses related to assets under construction for future productive use, and included as an adjustment to interest costs and added on cost of those assets,
- Foreign exchange differences arising from hedging transactions for foreign currency risks.
- Foreign exchange differences forming part of the foreign operation net investment, accounted under reserves, associated with profit or loss on sale of the net investment, and debt and receivables without intention or possibility of any payment, which arise due to operations in foreign jurisdictions.

The Group's assets and liabilities of foreign operations are expressed in TL using exchange rates prevailing on the statement of financial position date in the financial statements. Income and expense items, unless exchange rates fluctuates significantly at the dates of the transactions in the period (in case of major fluctuations, exchange rates at the transaction date is used) , are translated using average exchange rates during the period. Exchange differences are recognized in other comprehensive income and accumulated equity in a separate component.

k) Earnings per share

Earnings per share disclosed in the accompanying consolidated statement of income are determined by dividing net income by the weighted average number of shares in existence during the period concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources, by giving them a retroactive effect for the period in which they were issued and each previous year.

l) Capital and dividends

The ordinary shares are classified as equity. Dividends on ordinary shares are recognized in equity in the period are deducted.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary Of Significant Accounting Policies (continued)

m) Provisions, contingent assets and liabilities

A provision is recognized in the accompanying consolidated financial statements if as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Contingent liabilities are reviewed to determine if there is a possibility that the outflow of economic benefits will be required to settle the obligation. Except for the economic benefit outflow possibility is remote such contingent liabilities is disclosed in the notes to the financial statements. If the inflow of economic benefits is probable contingent assets have been disclosed in the notes to the financial statements. If the inflow of the economic benefit is more than likely to occur such asset and income statement effect has been recognized in the financial statements at the relevant period that income change effect occurs.

n) Reporting of cash flows

In the consolidated cash flow statement, cash flows are classified as operating, investing and financing activities.

Cash flows from operating activities shows the cash flows from main operations of the Group including sales of garment and textile products.

Cash flows from investing activities represent the cash flows used in / provided from investing activities (tangible and intangible investments).

Cash flows from financing activities represent the funds used in and repayment of the funds during the period.

Cash and cash equivalents are cash, bank deposits and other short term investments whose maturity are less than 3 months after purchasing date, having high liquidity without having risks of significant change of value.

o) Subsequent events

Subsequent events represents the events after reporting date comprising any event between the reporting date and the date of authorization for the financial statements' issue to the benefit or loss of the entity.

The Group adjusts its consolidated financial statements according to the new condition if adjusting subsequent events arise subsequent to the reporting date. If it is not necessary to adjust the consolidated financial statements according to subsequent events, these subsequent events must be disclosed in the notes to the consolidated financial statements.

p) Segment reporting of financial information

An operating segment is a component of an entity:

(a)that engages in business activities from which it may earn revenues and incur,

(b)whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and

(c)for which discrete financial information is available

Reportable segment is an operating segment that segment information required to be disclosed.

An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:

(a)Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.

(b)The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss.

(c)Its assets are 10 per cent or more of the combined assets of all operating segments.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary Of Significant Accounting Policies (continued)

r) Government grants and incentives

Government incentives are not reflected in the financial statements; without the business fulfilment of the necessary conditions for obtaining that incentive which will and a reasonable assurance that they shall be obtained.

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

The Group is supported by the Scientific and Technological Research Council of Turkey ("TUBITAK"). TUBITAK carries out a program to organize and regulate the support of the Republic of Turkey in order to encourage research and technology development activities of industries in Turkey. Within the framework of this program, some part of the development expenses of industrial companies is reimbursed.

Government incentives granted in order to recover the expenses and losses incurred previously or to provide immediate finance support without causing the entity any cost in the future are recognized in profit or loss in the period in which they become collectable. The benefit of the loan taken from the government with an interest rate lower than that of the market is considered as government incentive. The benefit created by this lower interest rate is measured as the difference between the carrying value of the loan in the beginning and the acquired gains.

s) Operating leases

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

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

Assets held under other leases are classified as operating leases and are not recognized in the Group's statement of financial position.

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

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

2.3 Summary Of Significant Accounting Policies (continued)

t) Significant accounting estimates and assumptions

Liability for employee termination benefits

The present values of employee termination liabilities are determined on an actuarial basis using certain assumptions. These assumptions are used in determining the net cost of employee termination liabilities and include the discount rate. The carrying amount effects employee termination liability is effected by changes in these assumptions. The Group recognizes actuarial gains and losses in the consolidated statement of comprehensive income.

The Group determines the appropriate discount rate at the end of each year. Discount rate is used during computation of present value of employee termination liabilities (Note 21).

Net realizable value of inventory

Inventories are stated at the lower of cost and net realizable value. The Group Management has determined that the cost of some portion of the inventories is higher than the realizable value as of the reporting date. The impairment calculation requires management to estimate the future cash flows expected to arise from the sale of inventories and the estimated selling price less all estimated costs of completion and costs necessary to make the sale. Based on the estimation made by the Management as of 31 December 2017 the cost of inventories was reduced by TL 997.582 (31 December 2016: TL 10.157.583) (Note 10).

Deferred Tax

The Group calculates deferred tax assets and liabilities based on temporary differences arising between the carrying amount of assets and liabilities as reported under TAS and their tax base for statutory purposes. These temporary differences are mainly due to the timing differences of certain income and expense items in statutory and TAS financial statements. Deferred tax assets which are partially or fully recoverable, is estimated under current conditions. During the assessment, projections of future profits, losses incurred in the current period, expiration dates of unused tax losses and other tax assets and potential tax planning strategies were considered. A deferred tax asset is recognised for unused tax losses, to the extent that it is probable that future taxable profits will be available against which they can be utilized within 5 years.

Doubtful receivables

Provision for doubtful receivables represents the amount that the Group management believes will compensate future losses on receivables that are present as of the reporting date but are subject to uncollectible receivables under current economic conditions. The past performance of customers except related parties and key customers that are assessed for impairment of receivables due to impairment is based on market credits and performance from the reporting date to the date of approval of the financial statements and re-negotiated conditions.

Recovery of internally generated intangible assets

During the period, the Group management has re-examined the existence of probable future economic benefits of internally generated intangible assets. The Group's management believes that the projects will continue as expected, and analysis of projects is expected to generate similar economic benefits. Management is sure to recover the carying values of the assets, even if economic benefits have decreased. This situation is closely monitored by the Group management and the management will make such corrections in cases where it is necessary due to the future market conditions.

Fair value of the derivative financial instruments and other financial instruments

The Group, calculates the fair value of the financial instruments that do not have an active market by utilizing from market data, taking intto consideration of the similar instruments' fair value and using discounted cash flow techniques.

3. BUSINESS COMBINATIONS

None. (2016: None).

4. BUSINESS PARTNERSHIPS

None. (2016: None).

5. SEGMENT REPORTING

As Group has started to implement the TAS 8 from 1 January 2009, the operating segments are defined by the the Group's decision-making authority based on regularly revised internal reports. The Group decision-making authority is the general manager and the board of directors.

Group's decision-making authority, examines the results and activities on a product basis in order to make decisions about resources to be allocated to the segments and to evaluate the segments' performance. The Group's operating segments on the basis of the distribution of the business segments are as follows: textiles and garments.

a) Segment revenues:	**31 December 2017**	**31 December 2016**
Textile	282.190.212	229.883.655
Garment	15.390.151	17.125.105
	297.580.363	**247.008.760**

b) Segment assets:	**31 December 2017**	**31 December 2016**
Textile	234.800.372	227.648.371
Garment	10.218.637	27.524.000
Segment assets	**245.019.009**	**255.172.371**

c) Segment liabilities:	**31 December 2017**	**31 December 2016**
Textile	179.610.380	209.701.271
Garment	4.892	336.576
Segment liabilities	**179.615.272**	**210.037.847**

5. SEGMENT REPORTING (CONTINUED)

d-1) 1 January - 31 December 2017 period section analysis:

	Textile	Garment	Total
Sales revenue	282.190.212	15.390.151	297.580.363
Cost of sales	(213.111.377)	(12.406.855)	(225.518.232)
Gross operating profit	69.078.835	2.983.296	72.062.131
General and administrative expenses	(8.942.800)	(189.913)	(9.132.713)
Marketing, selling and distribution expenses	(28.933.952)	(1.211.974)	(30.145.926)
Research and development expenses	(653.578)	-	(653.578)
Other operating income	30.580.564	11.924	30.592.488
Other operating expenses	(19.191.323)	-	(19.191.323)
Segment result	**41.937.746**	**1.593.333**	**43.531.079**

d-2) 1 January - 31 December 2016 period section analysis:

	Textile	Garment	Total
Sales revenue	229.883.655	17.125.105	247.008.760
Cost of sales	(200.481.282)	(14.026.649)	(214.507.931)
Gross operating profit	**29.402.373**	**3.098.456**	**32.500.829**
General and administrative expenses	(21.329.307)	(400.621)	(21.729.928)
Marketing, selling and distribution expenses	(29.243.249)	(1.815.498)	(31.058.747)
Research and development expenses	(1.312.763)	-	(1.312.763)
Other operating income	17.368.735	16.557	17.385.292
Other operating expenses	(12.635.782)	(1.494)	(12.637.276)
Segment result	**(17.749.993)**	**897.400**	**(16.852.593)**

e) Capital expenditures

	1 January – 31 December 2017	1 January – 31 December 2016
Textile	12.017.820	8.911.520
Garment	-	30.760
	12.017.820	**8.942.280**

5. SEGMENT REPORTING (CONTINUED)

f-1) 1 January - 31 December 2017 period expenses not requiring cash outflow

	Textile	Garment	Total
- Depreciation and amortization	11.768.722	46.244	11.814.966
- Provisions for employee benefits	3.329.860	553.834	3.883.694
	15.098.582	**600.078**	**15.698.660**

f-2) 1 January - 31 December 2016 period expenses not requiring cash outflow:

	Textile	Garment	Total
- Depreciation and amortization	12.745.336	49.744	12.795.080
- Provisions for employee benefits	9.168.642	40.237	9.208.879
	21.913.978	**89.981**	**22.003.959**

6. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Banks		
- Demand deposits	10.897.681	1.344.869
- Time deposits(*)	-	1.300.000
Other	255	6.443
	10.897.936	**2.651.312**

Disclosures on the nature and level of risks of cash and cash equivalents are disclosed in Note 33. As at 31 December 2017, the Group has no restricted cash

(*) As at 31 December 2017 the Group has no time deposits. (2016 The Group has balance of time deposits amounting to TL 1.300.000 and its interest rate is 1.75%. The Group's maturity of time deposits is less than 1 month.)

7. RELATED PARTY DISCLOSURES

a) Trade receivables from related parties and trade payables to related parties

a) Trade receivables from related parties	31 December 2017	31 December 2016
Carrefoursa A.Ş.	520.941	-
	520.941	**-**

Trade payables to related parties:	31 December 2017	31 December 2016
Aksigorta A.Ş. (2)	81.707	17.373
Hacı Ömer Sabancı Holding A.Ş. (1)	37.325	69.875
Bimsa Uluslararası İş, Bilgi ve Yönetim Sistemleri A.Ş. (2)	171.227	37.224
Avivasa Emeklilik ve Hayat A.Ş. (2)	66	-
Sabtek San. ve Tic. A.Ş.	13.943	37.196
Teknosa İç ve Dış Ticaret A.Ş. (2)	655	655
	304.924	**162.322**
Less: Unaccrued finance expense	(9.636)	(1.821)
	295.288	**160.501**

Payables to related parties are due shorter than three months in 31 December, 2017. TL and foreign currency denominated payables to related parties are discounted respectively by 12,91% per annum and LIBOR rates.

b) Bank deposits:	31 December 2017	31 December 2016
Akbank T.A.Ş.(2)		
- Demand deposit	10.610.819	1.154.572
- Time deposit	-	1.300.000
	10.610.819	**2.454.572**

(1) Shareholder
(2) Inter-group company

7. RELATED PARTY DISCLOSURES

a) Trade receivables from related parties and trade payables to related parties (continued)

c) Financial instruments:	**31 December 2017**	**31 December 2016**
Akbank T.A.Ş. (2)		
Loans	501.509	17.209.155
Long-term	-	16.694.550
Short-term	501.509	514.605
Derivative financial instruments	(3.547.571)	2.591.915
	(3.046.062)	**19.801.070**

d) Goods purchased from related parties:

	1 January - 31 December 2017	**1 January - 31 December 2016**
Carrefoursa AŞ. (2)	11.542	15.362
Teknosa İç ve Dış Ticaret A.Ş. (2)	321	817
	11.542	**16.179**

e) Product sales to related parties:

	1 January - 31 December 2017	**1 January - 31 December 2016**
Brisa Bridgestone Sabancı Lastik San.Tic.A.Ş. (2)	-	40.243
Carrefoursa A.Ş. (2)	520.941	-
	520.941	**40.243**

f) Service purchases from related parties:

	1 January - 31 December 2017	**1 January - 31 December 2016**
Hacı Ömer Sabancı Holding A.Ş. (**) (1)	746.030	996.215
Aksigorta A.Ş. (*) (2)	1.426.064	1.478.281
Bimsa Ulus. İş Bilgi ve Yön.Sis. A.Ş. (***) (2)	731.603	475.528
Avivasa Emeklilik ve Hayat A.Ş. (****) (2)	100.231	94.740
Sabtek San. ve Tic. A.Ş.	38.873	34.197
	3.042.801	**3.078.961**

(*) The Group is receiving insurance services from Aksigorta A.Ş.
(**) The Group is receiving health service, maintenance and repair services and receiving building services from Haci Omer Sabanci Holding
(***) The Group is receivng information-processing services and fixed assets from Bimsa Ulus. İş, Bilgi ve Yön. Sis. A.Ş.
(****) The Group is receiving insurance service from Avivasa Emeklilik Hayat A.Ş.

(1) Shareholder
(2) Inter-group company

7. RELATED PARTY DISCLOSURES (CONTINUED)

g) Fixed asset purchases from related parties:

	1 January - 31 December 2017	1 January - 31 December 2016
Bimsa Ulus.İş Bilgi ve Yön.Sis. A.Ş. (2)	289.594	325.480
	289.594	**325.480**

h) Other income:

	1 January - 31 December 2017	1 January - 31 December 2016
Aksigorta A.Ş. (2)	1.032	12.898
Bimsa Ulus.İş Bilgi ve Yön.Sis. A.Ş. (2)	1.743	1.887
Brisa Bridgestone Sabancı Lastik San. ve Tic. A.Ş.		1.687
Kordsa Global (2)		73.700
	2.775	**90.172**

ı) Other expense:

	1 January - 31 December 2017	1 January - 31 December 2016
Aksigorta A.Ş. (2)	1.423	1.340
Brisa Bridgestone Sabancı Lastik San. ve Tic. A.Ş.		1.687
Bimsa Ulus.İş Bilgi ve Yön.Sis. A.Ş. (2)	8.122	9.853
	9.545	**12.880**

i) Finansman gideri/(geliri):

	1 January - 31 December 2017	1 January - 31 December 2016
Akbank T.A.Ş. (*) (2)		
-Interest and foreign exchange expenses / (income)	1.961.221	5.073.837
-Derivative financial instruments gain/(loses)	8.807.600	(4.208.675)
-Other comprehensive (income)/expenses	(6.139.486)	3.315.899
	4.629.336	**4.181.061**

(2) Inter-group company

(*) TL 1.281.261 of interest and foreign exchange expense by Akbank during the year consists of foreign exchange losses, and TL 679.960 is consist of loan interest. (2016: TL 707.478 consists of foreign exchange losses and interest.)

7. RELATED PARTY DISCLOSURES (CONTINUED)

j) Wages and similar remuneration paid to Board members and senior management personnel:

	1 January - 31 December 2017	1 January - 31 December 2016
Salaries and other short-term benefits	3.152.885	1.808.313
Other long-term benefits	346.337	191.435
	3.499.222	**1.999.748**

8. TRADE RECEIVABLES AND PAYABLES

Short term trade receivables:	1 January - 31 December 2017	1 January - 31 December 2016
Ticari alacTrade receivablesaklar	60.228.637	57.577.426
Related party receivables (Note:7)	520.941	-
Notes receivable	16.746.119	22.452.142
Provisions for doubtful trade receivables	(2.726.738)	(2.886.251)
	74.768.959	**77.143.317**
Less: Unearned finance income	(575.323)	(954.767)
Trade receivables, net	**74.193.635**	**76.188.550**

Trade receivables have generally less than four months maturity (2016: less than 4 months) as at 31 December 2017 and 2016. TL and foreign currency trade receivables are discounted by 12,91%(31 December 2016:10,13%) and LIBOR rates respectively.

The explanations of nature and level of risk in trade receivables are given in Note 33.

Provisions for doubtful receivables	**2017**	**2016**
1 January	(2.886.251)	-
Provisions made during the period (Note 26)	(475.656)	(2.986.637)
Provisions released during the period (Note 26)	635.169	100.386
31 December	**(2.726.738)**	**(2.886.251)**

8. TRADE RECEIVABLES AND PAYABLES (CONTINUED)

Short-term trade payables:	31 December 2017	31 December 2016
Trade payables to foreign suppliers	49.318.044	16.289.428
Trade payables to domestic suppliers	13.041.591	9.521.901
Work and service payables	2.586.396	2.684.180
Payables to related parties (Note 7)	304.924	162.322
	65.250.955	**28.657.831**
Less: Unaccrued financial expense (-)	(599.004)	(323.430)
	64.651.951	**28.334.401**

As at 31 December 2017, maturity of trade payables is between 3 to 5 months, and TL and foreign currency denominated trade payables are discounted by 12,91% (31 December 2016: 10,13%) and LIBOR rates respectively.

Explanations of nature and level of risks in trade payables are given in Note 33.

9. OTHER RECEIVABLES AND DEFERRED INCOME

Other receivables	31 December 2017	31 December 2016
Income accruals (*)	626.154	1.014.968
Due from personnel	72.310	115.069
Other	183.967	6.515
	882.431	**1.136.552**

(*) As of 31 December, income accruals are mainly consists of incentive accruals.

Deferred income	31 December 2017	31 December 2016
Order advances received	844.707	2.137.685
	844.707	**2.137.685**

10. INVENTORIES

	31 December 2017	31 December 2016
Raw materials	7.462.681	6.796.155
Work in progress	20.676.643	22.320.376
Finished goods	27.880.987	58.422.086
Trade goods	703.892	290.806
Goods in transit	14.097.548	3.988.160
Other inventories	16.416	736.034
Provision for impairment of inventories (-)	(997.582)	(10.157.583)
	69.840.586	**82.396.034**

The movement in the provision for impairment of inventories is as follows:

	1 January - 31 December 2017	1 January - 31 December 2017
1 January	(10.157.583)	(295.388)
Provisions cancelation/reversal during the period (Note 24)	9.789.581	575.033
Provisions made during the period (Note 24)	(629.580)	(10.437.228)
31 December	**(997.582)**	**(10.157.583)**

As of 31 December 2017, TL 9.789.581 of the inventory impairment provision has been canceled due to the fact these impaired inventories were sold in the current period (31 December 2016: TL 575.033). The provision expense and reversals of inventory impairment is recognised in the cost of goods sold.

11. BIOLOGICAL ASSETS

None (2016: None).

12. PREPAID EXPENSES

Short term	**31 December 2017**	**31 December 2016**
Stock advances	11.273	15.201
Insurance expenses	-	16.808
Letter of guarantee commissions	-	97.847
Consultancy and fair advances	-	680.890
Other	77.891	261.038
	89.164	**1.071.784**
Long term	**31 December 2017**	**31 December 2016**
Expo travelling advances	527.384	-
Consultancy expensess	267.240	157.445
Insurance expenses	84.125	-
Fixed asset advances	-	106.125
Other	65.341	-
	944.090	**263.570**

13. INVESTMENT PROPERTIES

None (2016: None).

14. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment are as follows:

	1 January 2017	Additions	Disposals	Transfers	31 December 2017
Cost:					
Land	340.501	-	-	-	**340.501**
Land Improvements	7.236.934	47.317	-	-	**7.284.251**
Buildings	45.514.254	1.633.862	-	280.000	**47.428.116**
Machinery and equipment	189.606.002	3.263.246	(6.919.703)	5.459	**185.955.004**
Vehicles	131.669	-	-	-	**131.669**
Furniture and fixture	6.457.032	209.154	(2.849)	5.370	**6.668.707**
Leasehold Improvements	1.140.396	16.500	-	-	**1.156.896**
Construction in progress	306.375	365.255	-	(290.829)	**380.801**
	250.733.163	**5.535.334**	**(6.922.552)**	**-**	**249.345.945**
Accumulated depreciation:					
Land Improvements	(6.245.976)	(121.360)	-	-	**(6.367.336)**
Buildings	(28.460.212)	(976.904)	-	-	**(29.437.116)**
Machinery and equipment	(159.738.696)	(5.597.878)	5.110.784	-	**(160.225.790)**
Vehicles	(22.942)	(25.561)	-	-	**(48.503)**
Furniture and fixture	(4.832.476)	(483.781)	993	-	**(5.315.265)**
Leasehold improvements	(868.949)	(62.107)	-	-	**(931.056)**
	(200.169.251)	**(7.267.591)**	**5.111.777**	**-**	**(202.325.066)**
Net book value	**50.563.912**				**47.020.879**

Current period depreciation and amortization expenses have been included in cost of goods sold amounting to TL 7.176.784, in operating expenses amounting to TL 90.807. There are no pledges or mortgages on property, plant and equipments (2016: None).

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	1 January 2016	Additions	Disposals	Transfers	31 December 2016
Cost:					
Land	340.501	-	-	-	**340.501**
Land improvements	7.093.513	143.421	-	-	**7.236.934**
Buildings	45.011.143	503.111	-	-	**45.514.254**
Machinery and equipment	183.507.404	5.875.070	(1.032.756)	1.256.284	**189.606.002**
Vehicles	135.049	125.877	(129.257)	-	**131.669**
Furniture and fixture	6.221.260	233.818	(3.766)	5.720	**6.457.032**
Leasehold improvements	1.025.914	114.482	-	-	**1.140.396**
Construction in progress	142.885	1.555.513	-	(1.392.023)	**306.375**
	243.477.669	**8.551.292**	**(1.165.779)**	**(130.019)**	**250.733.163**
Accumulated depreciation:					
Land Improvements	(6.125.919)	(120.057)	-	-	**(6.245.976)**
Buildings	(27.495.866)	(964.346)	-	-	**(28.460.212)**
Machinery and equipment	(154.322.567)	(6.418.769)	1.002.640	-	**(159.738.696)**
Vehicles	(112.984)	(23.913)	113.955	-	**(22.942)**
Furniture and fixture	(4.363.645)	(471.236)	2.405	-	**(4.832.476)**
Leasehold improvements	(817.153)	(51.796)	-	-	**(868.949)**
	(193.238.134)	**(8.050.117)**	**1.119.000**	**-**	**(200.169.251)**
Net book value	**50.239.535**				**50.563.912**

15. INTANGIBLE ASSETS

	1 January 2017	Additions	Disposals	Transfers	31 December 2017
Costs:					
Rights	345.542	-	-	-	345.542
Software programs	9.281.320	302.167	(135)	-	9.583.352
R&D projects in progress	2.369.280	2.106.590	-	-	4.475.870
Capitalized development project costs	22.270.156	4.073.729	-	-	26.343.885
	34.266.298	**6.482.486**	**(135)**	**-**	**40.748.649**
Accumulated amortization:					
Rights	(123.800)	(16.676)	-	-	(140.476)
Software programs	(6.948.285)	(970.483)	-	-	(7.918.768)
R&D projects	(12.279.885)	(3.560.216)	-	-	(15.840.101)
	(19.351.970)	**(4.547.375)**	**-**	**-**	**(23.899.345)**
Net book value	**14.914.328**				**16.849.304**

15. INTANGIBLE ASSETS (CONTINUED)

	1 January 2016	Additions	Disposals	Transfers	31 December 2016
Costs:					
Rights	234.488	111.054	-	-	345.542
Software programs	8.707.877	443.424	-	130.019	9.281.320
R&D projects in progress	2.369.280	-	-	-	2.369.280
Capitalized development project costs	17.353.741	4.916.415	-	-	22.270.156
	28.665.386	**5.470.893**	**-**	**130.019**	**34.266.298**
Accumulated amortization:					
Rights	(103.725)	(20.075)	-	-	(123.800)
Software programs	(5.960.552)	(987.733)	-	-	(6.948.285)
R&D projects	(8.542.730)	(3.737.155)	-	-	(12.279.885)
	(14.607.007)	**(4.744.963)**	**-**	**-**	**(19.351.970)**
Net book value	**14.058.379**				**14.914.328**

Current period amortization has been included in the cost of goods sold amounting to TL 4.599.051, and TL 145.912 in operating expenses.

Government incentives are shown net of investment expenditures. Cash incentive amounting to TL 791.837TL was received during the period.

There are no collaterals, pledges or mortgages on tangible assets (2016- None).

16. GOODWILL

None (2016: None).

17. GOVERNMENT INCENTIVES AND GRANTS

	31 December 2017	31 December 2016
Development incentive (*)	6.114.605	4.868.849
	6.114.605	**4.868.849**

(*) Group, as a result of Research and Development Center application, has been granted to obtain, Industry and Trade Ministry's Research and Development Center Certificate on October 25, 2010 consists of the incentive amount received according to 5746 numbered Research and Development Activities in Support of the Law on the framework provided in the amount of Research and Development Center staff on the wages benefited income Tax, Stamp Tax, Social Security incentives, approved TUBITAK projects and European Union (EU) Horizon 2020 project.

Government incentives, as a finance tool, recognized at balance sheet by netting cost of investments instead of recognizing in profit or loss, and depreciated over the useful lives of related assets on a systematic basis in profit or loss.

18. LOANS AND BORROWINGS

	31 December 2017		31 December 2016	
	Weighted average annual effective interest rate %	**TL**	**Weighted average annual effective interest rate %**	**TL**
Short term bank loans				
TL borrowings	12,91	59.769.667	10,13	51.919.830
Euro borrowings	3,27	30.253.850	1,43	37.461.009
US Dollar borrowings		-	3,4	8.622.040
Pound borrowings		-	3,3	1.373.410
Interest accrual		2.937.256		2.251.201
Interest accrual (short term portion of long-term loans)		-		460.610
Total		**92.960.773**		**102.088.100**
Long term bank loans				
Euro borrowings		-	3,57	53.793.550
Total		**-**		**53.793.550**

Explanations of nature and level of risks in financial liabilities are given in Note 33.

Movement of loans and borrowings are as follows:

	2017
1 January 2017- Financial liabilities at the beginning of the period	155.881.650
2017 - Net inflows/(outflows) during the period	(78.171.787)
2017 - Interest expense for the period	12.743.390
2017 - Effects of exchange rate changes	2.507.520
31 December 2017- Financial liabilities at the end of the period	**92.960.773**

As of 31 December 2017, the Group does not have any mortgages or guarantees given for its financial borrowings.

19. PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent assets and liabilities:

	31 December 2017	**31 December 2017**
Bails received and guarantee notes	26.078.308	28.926.585
Letters of guarantees received	7.202.279	5.164.535
Mortgages received	1.655.050	1.655.050
	34.935.637	**35.746.170**

Guarantees received has been received essentially regarding the sale made to customers. Financial risks regarding with letter of guarantee received is shown in Note 33. Company's exports are also insured by Turkish Eximbank.

19. PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES (CONTINUED)

Group's colleterals, pledge and mortgage ("CPM") position is as follows:

	31 December 2017					31 December 2016				
	TL Equivalent	TL	US Dollar	Euro	Other	TL Equivalent	TL	US Dollar	Euro	Other
A. Total amount of CPM's given for companies own legal entity	**7.393.613**	**6.824.003**	**31.300**	**100.000**	**-**	**35.379.450**	**9.447.353**	**7.132.873**	**223.750**	**-**
Collateral	7.393.613	6.824.003	31.300	100.000	-	35.379.450	9.447.353	7.132.873	223.750	-
Pledge	-	-	-	-	-	-	-	-	-	-
Mortgage	-	-	-	-	-	-	-	-	-	-
B. Total amount of CPM's given on behalf of fully consolidated companies										
Collateral	-	-	-	-	-	-	-	-	-	-
Pledge	-	-	-	-	-	-	-	-	-	-
Mortgage	-	-	-	-	-	-	-	-	-	-
C. Total amount of CPM's given for continuation of its economic activities on behalf of third parties										
Collateral	-	-	-	-	-	-	-	-	-	-
Pledge	-	-	-	-	-	-	-	-	-	-
Mortgage	-	-	-	-	-	-	-	-	-	-
D. Total amount of other CPM's given										
i. Total amount of CPM's given on behalf of the majority shareholder										
Collateral	-	-	-	-	-	-	-	-	-	-
Pledge	-	-	-	-	-	-	-	-	-	-
Mortgage	-	-	-	-	-	-	-	-	-	-
ii. Total amount of CPM's given to on behalf of other Group companies which are not in scope of B and C										
Collateral	-	-	-	-	-	-	-	-	-	-
Pledge	-	-	-	-	-	-	-	-	-	-
Mortgage	-	-	-	-	-	-	-	-	-	-
iii. Total amount of CPM's given on behalf of third parties which are not in scope of C										
Collateral	-	-	-	-	-	-	-	-	-	-
Pledge	-	-	-	-	-	-	-	-	-	-
Mortgage	-	-	-	-	-	-	-	-	-	-
Total CPM	**7.393.613**	**6.824.003**	**31.300**	**100.000**	**-**	**35.379.450**	**9.447.353**	**7.132.873**	**223.750**	**-**

The ratio between other CPM's given by the Group and the Group's equity is 0% as of 31 December 2017. (31 December, 2016 : 0%)

Letters of guarantee are given to various Customs Directorates. As of 31 December 2017 and 31 December 2016, the Group has no other given CPMs.

20. COMMITMENTS

The Group, under the inward processing authorization documents, has export commitment amounting US Dollar 8.410.000 (31 December 2016: US Dollar 15.769.158).

Leasing contracts:

As of 31 December 2017, Group's expenses associated with current year operating leases are TL 1.622.864 (31 December, 2016: TL 2.171.278)

The Group's lease commitments related to operating leases are as follows:

	31 December 2017	31 December 2016
Within 1 year	472.042	409.817
Within 1-5 years	656.961	59.365
	1.129.003	**469.182**

21. PROVISION AND LIABILITIES RELATED TO EMPLOYEE BENEFITS

Short term provision for employee benefits:

	31 December 2017	31 December 2016
Unused vacation liability	1.762.450	1.544.863
Wages of employee payable	1.146.031	1.151.602
Taxes & funds payable	1.355.916	1.736.859
Social security deductions payable	3.239.832	2.389.273
	7.504.229	**6.822.597**

For the periods ended on 31 December, the movement of vacation pay provision is as follows:

	2017	2016
1 January	1.544.863	1.313.970
Current period expenses	1.075.609	2.059.002
No longer required	(858.022)	(1.828.109)
31 December	**1.762.450**	**1.544.863**

Provisions for long-term employee benefits:

	31 December 2017	31 December 2016
Provision for employee termination benefits	12.617.015	11.233.561
	12.617.015	**11.233.561**

Under the Turkish Labour Law, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who is called up for military service, dies or retires after completing 25 years of service (20 years for women).

The imdemnity payable is one month's salary limited to a maximum of TL 4.732,48 for each year of service as of 31 December 2017 (31 December 2016 TL 4.426,16)

TAS 19 ("Employee Benefits") suggests that the Group's liabilities are developed using the actuarial valuation techniques within the scope of defined benefit plans. Accordingly, the actuarial assumptions used in the calculation of total liabilities are mentioned below:

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Therefore, as of 31 December 2017, provisions in the accompanying consolidated financial statements, future, contingent liabilities due to retirement of employees is calculated by estimating the present value. Provisions in the balance sheet date, 7% of the annual inflation rate and 11,30% of discount rate is calculated on the estimations obtained as 4,02% real discount rate used (31 December 2016: 3,46%).Estimated turnover rate for probability of retirement is calculated as 96,66%. The severance pay amount that not given to the employee, as a consequence of optional reginations, is taken into account. Employees of the Group as of 31 December 2017 of 3,34% are more likely to leave the job with their requests. (31 December 2016: 3,16%).

For the periods ended 31 December; movements in the provision for employment termination benefits are as follows:

	2017	2016
1 January	11.233.561	12.052.495
Interest cost	1.190.757	1.277.564
Cost of services	2.475.350	5.710.422
Actuarial gain / loss	(141.268)	(354.024)
Payments	(2.141.385)	(7.452.896)
31 December	**12.617.015**	**11.233.561**

22. OTHER ASSETS AND LIABILITIES

Short-term derivative financial instruments

	31 December 2017	31 December 2016
Derivative financial assets / (liabilities)	3.547.571	(2.591.915)
	3.547.571	**(2.591.915)**

A part of the Group' sale has been hedged with foreign currency forward contracts.

Other current assets	31 December 2017	31 December 2016
Deferred VAT	7.064.568	9.248.381
VAT return to be requested	1.131.613	1.698.465
Other	525.556	343.358
Job advances	91.041	56.315
	8.812.779	**11.346.519**

Other short term liabilities	31 December 2017	31 December 2016
Expense provision	822.974	901.560
Provision for employee termination benefits	-	1.990.000
Other	213.623	144.478
	1.036.597	**3.036.038**

23. EQUITY

A) PAID IN CAPITAL:

Shareholders and share percentages of the Group as of 31 December 2017 and 31 December 2016 are as follows:

31 December 2017 and 31 December 2016	TL	Share (%)
Hacı Ömer Sabancı Holding A.Ş.	16.878.507	57,88
Publicly listed and other	12.281.493	42,12
	29.160.000	**100**

The Group's authorized and issued share capital is registered by nominal value of Kr 1 each shares consists of 2.916.000.000 shares (2016: 2.916.000.000)

23. EQUITY (CONTINUED)

B) Restricted reserves:

Retained earnings recognized on statutory financial statements other than legal reserves are subject to the legal reserve requirement set out below.

The legal reserves are established by annual appropriations amounting to 5% of income disclosed in the Group's Turkish entities' statutory accounts until it reaches 20% of paid-in share capital (first legal reserve). Without limit, a further 10% of dividend distributions in excess of 5% of share capital is to be appropriated to increase legal reserves (second legal reserve). The first legal reserve is restricted and is not available for distribution as dividend unless it exceeds 50% of share capital.

C) Foreign currency conversion differences:

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

The movements in the foreign currency conversion differences are as follows:

	31 December 2017	31 December 2016
Opening balance	566.466	607.863
Foreign based entity's net assets conversion exchange differences	395.788	(41.397)
Closing balance	**962.254**	**566.466**

D) Actuarial gains / (losses)

	31 December 2017	31 December 2016
Not reclassified in profit or losses		
Defined benefit plans remeasurement gains	141.268	354.024
	141.268	**354.024**

E) Cash flow hedge fund

	31 December 2017	31 December 2016
Classified in profit or losses		
Cash flow hedge gain (losses)	6.139.486	(3.315.899)
	6.139.486	**(3.315.899)**

24. REVENUE AND COST OF SALES

a) Revenue	**1 January- 31 December 2017**	**1 January- 31 December 2016**
Export sales	198.994.603	166.982.461
Domestic sales	98.585.760	80.026.299
	297.580.363	**247.008.760**

b) Cost of sales	**1 January- 31 December 2017**	**1 January- 31 December 2016**
Raw materials and material expenses	(108.731.672)	(97.336.013)
Direct labor costs	(32.154.934)	(34.550.828)
General production expenses	(49.792.120)	(52.484.303)
Depreciation and amortization expense	(11.578.247)	(12.531.928)
Changes in inventories of work in progress	(1.695.905)	(11.166.598)
Changes in inventories of finished goods	(30.541.100)	3.857.329
Cost of finished goods sold	**(234.493.977)**	**(204.212.341)**
Cost of trade goods sold	**(184.256)**	**(260.265)**
Cost of services sold	**-**	**(173.130)**
Change in provision for impairment of inventories (Note 10)	**9.160.001**	**(9.862.195)**
Cost of sales	**(225.518.232)**	**(214.507.931)**

25. ASSETS RELATED TO ONGOING CONSTRUCTION CONTRACTS

None (2016: None)

26. MARKETING, GENERAL ADMINISTRATIVE EXPENSES AND RESEARCH AND DEVELOPMENT EXPENSES

General administrative expenses

	1 January- 31 December 2017	1 January- 31 December 2016
Severance pay liability	(1.524.722)	(6.987.986)
Personnel	(5.053.082)	(6.532.080)
Rent	(678.119)	(714.939)
Consulting	(671.845)	(804.790)
Depreciation and amortization	(95.457)	(90.883)
Changes in unused vacation liability	(217.587)	(230.893)
Provisions for doubtful receivables		(2.886.251)
Other	(891.900)	(3.482.106)
Total general administrative expenses	**(9.132.713)**	**(21.729.928)**

Marketing expenses

	1 January- 31 December 2017	1 January- 31 December 2016
Export and freight	(13.708.277)	(15.994.624)
Consulting	(6.536.235)	(6.036.545)
Personnel	(3.779.265)	(5.022.194)
Rent	(470.285)	(1.037.416)
Marketing	(1.245.353)	(715.719)
Transportation	(2.743.112)	(724.550)
Depreciation and amortization	(129.302)	(119.567)
Advertising expenses	(1.109.827)	(119.259)
Other	(424.271)	(1.288.873)
Total marketing, selling and distribution expenses	**(30.145.926)**	**(31.058.747)**

Research and development expenses

	1 January- 31 December 2017	1 January- 31 December 2016
Personnel	(307.914)	(834.306)
Depreciation and amortization	(11.960)	(52.702)
Other	(333.704)	(425.755)
Total research and development expenses	**(653.578)**	**(1.312.763)**

27. OTHER OPERATING INCOME / (EXPENSES) AND INCOME FROM INVESTING ACTIVITIES

	1 January- 31 December 2017	1 January- 31 December 2016
Foreign exchange gain from trade receivables and payables	26.065.328	14.152.348
Fair incentive incomes	2.016.264	1.132.650
Price difference claim income	289.783	150.205
Raw material and scrap material sales income	336.453	308.069
Turquality incentive income	870.922	613.678
Interest income due to overdue receivables	102.634	51.865
Other	911.104	976.477
Total other operating income	**30.592.488**	**17.385.292**

	1 January- 31 December 2017	1 January- 31 December 2016
Foreign exchange loss from trade receivables and payables	(16.316.721)	(5.170.023)
Monthly fees	(947.226)	(397.826)
Special transaction tax	(20.745)	(28.740)
Taxes paid in scope of the Law numbered 6736	-	(4.885.111)
Compensations and penalties	(120.000)	(125.931)
Non-tax deductible expenses	(1.139.580)	(1.678.279)
Other	(647.051)	(351.366)
Total other operating expense	**(19.191.323)**	**(12.637.276)**

	1 January- 31 December 2017	1 January- 31 December 2016
Gain on sale of property,plant and equipment	1.809.733	816.268
Total income from investment activities	**1.809.733**	**816.268**

28. EXPENSE BY NATURE

A) Accrued wages and salaries	1 January- 31 December 2017	1 January- 31 December 2016
Cost of goods sold	(39.526.368)	(40.497.137)
Marketing, selling and distribution expenses	(3.779.265)	(5.022.194)
General administrative expense	(5.053.082)	(6.532.080)
Research and development expense	(307.914)	(834.306)
	(48.666.629)	**(52.885.717)**

B) Distribution of depreciation and amortization	1 January- 31 December 2017	1 January- 31 December 2016
Cost of goods sold	(11.578.247)	(12.531.928)
Marketing, selling and distribution expenses	(129.302)	(119.567)
Research and development expense	(11.960)	(52.702)
General administrative expense	(95.457)	(90.883)
	(11.814.966)	**(12.795.080)**

29. FINANCE EXPENSES

	1 January- 31 December 2017	1 January- 31 December 2016
Foreign exchange (expense) / income	(13.728.150)	(12.934.324)
Interest expense	(12.743.390)	(12.462.891)
Other financial expense	(2.577.426)	(2.056.411)
	(29.048.965)	**(27.453.626)**

30. AVAILABLE FOR SALE LONG-TERM ASSETS AND DISCONTINUED OPERATIONS

None (2016: None).

31. TAX ASSETS AND LIABILITIES

Tax amounts recognized is as follows.

	31 December 2017	31 December 2016
Current income tax payable	-	-
Less: Prepaid taxes	(22.568)	(1.166)
Tax return receivable	**(22.568)**	**(1.166)**

Corporation tax

The Group's main shareholder, the Company is subject to corporation tax applicable in Turkey. Corporate tax expense recognised in the consolidated accompanying financial statements for the estimated tax liabilities related to the Group's results for the current period. Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit after adding non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

In Turkey, corporate tax rate is 20% as of 31 December 2017 (2016: 20%). However, according to the Article 91 of the Law numbered 7061 "Legislation on Amendment of Certain Tax Legislation and Other Certain Legislation" which was published on the Official Gazette numbered 30261 on 5 December 2017 and according to the provisional clause 10 added to the Corporate Tax Law numbered 5520; corporate tax rate for the taxation periods of 2018, 2019 and 2020 is amended to 22%, which would later be applied as 20% at the end of these periods. During these periods, Council of Ministers is entitled to decrease the corporate tax rate of 22% to 20%. The tax legislation provides for a temporary tax of 20% (2016: 20%) to be calculated and paid based on earnings generated for each quarter for the period ended 31 December 2017. The amounts thus calculated and paid are offset against the final corporate tax liability for the year. With the amendment to the Law, corporate rate is set to 22% for the years 2018, 2019 and 2020.

31. TAX ASSETS AND LIABILITIES (CONTINUED)

Exemptions from corporate tax:

75% of the income derived by entities from the sale of participation shares, immovable property, preferential rights, founders' shares and redeemed shares which are carried in assets at least for two years is exempt from corporate tax as of 31 December 2017. However, according to the amendments by Law numbered 7061, this rate is reduced from 75% to 50% and tax declarations starting from 2018 will be calculated using 50%.

In order to be able to benefit from the exemption, the relevant income should be kept under a fund account in the liabilities and should not be withdrawn from the enterprise for 5 years. The sales amount should be collected by the end of the second calendar year following the year of sale. In Turkey, advance tax are calculated and accrued quarterly. Corporate income tax in 2017 is calculated at 20% (2016 20%).

Under the Turkish taxation system, tax losses can be carried forward to be offset against future taxable income for up to five years. Tax losses cannot be carried back.

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

Witholding tax:

There is also a withholding tax on the dividends paid and is accrued only at the time of such payments. According to the amendments in the tax legislations, which became effective from 24 April 2003, dividends that are paid to the shareholders from the profits of the years between 1999 and 2002 are immune from the withholding tax, if such profits are exempted from corporation tax bases of the companies. As per the decision no.2006/10731 of the Council of Ministers published in the Official Gazette no.26237 dated 23 July 2006, certain duty rates included in the articles no.15 and 30 of the new Corporate Tax Law no:5520 revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the non resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions, was increased from 10% to 15%. Appropriation of retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

Witholding tax computation over investment tax credits regarding with the investment incentive certificates obtained prior to 24 April 2003 required to be computed by using 19.8%. No withholding tax computed over the capital expenditures made without tax incentive certificate after this date.

At 15 October 2009, the Turkish Constitutional Court decided to cancel the clause no.2 of the Article 15 of the Law no.5479 and the expressions of "2006, 2007, 2008" in the Temporary Article 69 related to investment allowance mentioned above that enables effectiveness of the Law as of 1 January 2006 rather than 8 April 2006, since it is against the Constitution. According to the decision of Turkish Constitutional Court, cancellation related with the investment allowance became effective with promulgation of the decision on the Official Gazette and the decision of the Turkish Constitutional Court was promulgated in the Official Gazette no.27456 dated 8 January 2010The Article 5 of the Law no. 6009 "Law on the Amendment of the Income Tax Law and Certain Laws and Decree Laws" which was promulgated in the Official Gazette on 1 August 2010 regulated the amount of investment incentive to be benefited in computing the corporate tax base after the cancellation of the Article no.2 of the Law no. 5479. According to the Law no. 6009, the taxpayers were allowed to benefit from the investment incentive stemming from the periods before the promulgation of the Law no. 5479, up to 25% of the taxable income of the respective tax period.

For the years ended 31 December 2017 and 2016, tax amounts recognized in the profit or loss statement are as follows:

	1 January- 31 December 2017	**1 January- 31 December 2016**
Tax expense-for the period	-	-
Deferred tax income / (expense)	(1.443.025)	9.383.359
	(1.443.025)	**9.383.359**

31. TAX ASSETS AND LIABILITIES (CONTINUED)

Deferred tax

The Group recognizes deferred tax assets and liabilities for temporary timing differences arising from the differences between the tax base financial statements and the financial statements prepared in accordance with TAS. Such differences usually arise due to the fact that certain income and expense items are included in different periods in the tax base financial statements as well as in the consolidated financial statements prepared in accordance with TAS, the differences are stated below.

Within the scope of the "Law on the Amendment of Certain Tax Laws and Other Laws" numbered 7061, which was published in the Official Gazette dated 5 December 2017, the corporate tax rate for the years 2018, 2019 and 2020 was increased from 20% to 22%. Under the said law, deferred tax assets and liabilities in the consolidated financial statements as of 31 December 2017 have a tax rate of 22% for the portion of temporary differences that will have a tax effect in 2018, 2019 and 2020 and 20% for temporary differences after 2020.

The Group incurred losses as of December 31, 2016. It is projected that past year tax losses could be used in the coming years.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets.

The breakdowns of cumulative temporary differences and the resulting deferred tax assets/liabilities provided as of December 31, 2017 and 2016 using principal tax rates are as follows:

The movement of deferred tax assets are as follows:

	Cumulative temporary differences		**Deferred tax assets / (liabilities)**	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Investment allowance	(811,615)	(811,615)	178,555	162,323
Tax-loss carry-forward	(20,416,197)	(24,411,191)	4,491,563	4,882,238
R&D allowance	(12,226,571)	(8,231,577)	2,689,846	1,646,315
Property, plant and equipment and intangible assets	(10,312,248)	(9,044,057)	2,062,450	1,808,811
Inventories	(1,036,827)	(7,037,415)	228,102	1,414,683
Provision for employee termination benefits	(12,617,015)	(11,233,561)	2,523,403	2,246,712
Other provisons	(1,141,795)	(2,834,798)	215,947	566,960
Unaccrued financial expense (net)	(1,183,099)	(6,966,918)	260,282	1,393,384
Derivative financial liabilities/assets	3,547,571	(2,591,915)	(709,514)	518,383
Deferred tax assets - net			**11,940,634**	**14,639,810**

	2017	**2016**
Balance at 1 January	**14,639,810**	**4,664,076**
Current year deferred tax income / (expense)	(1,443,025)	9,383,359
Reflected to other comprehensive income statement	(1,256,151)	592,375
Balance at 31 December	**11,940,634**	**14,639,810**

31. TAX ASSETS AND LIABILITIES (CONTINUED)

Income tax expense can be reconciled to the accounting profit as follows:

	1 January- 31 December 2017	**1 January- 31 December 2016**
(Loss)/profit before tax	**16.291.847**	**(43.489.951)**
Income tax rate 20%	(3.258.369)	8.697.990
Tax effects of:		
- Non-tax-deductible expenses	(1.568.911)	(1.312.678)
- Effects of tax rate changes	701.074	-
- Research and development deduction	1.043.530	1.587.493
Utilization of tax losses carried forward in previous years	798.999	
Lump sum expense deduction	917.692	-
Other	(77.039)	410.554
Tax (expense) / income on profit or loss statement	**(1.443.025)**	**9.383.359**

32. EARNINGS / (LOSSES) PER SHARE

	31 December 2017	**31 December 2017**
Net (loss)/profit	14.848.822	(34.106.592)
Weighted average number of shares per 1 Kr. in nominal value	2.916.000.000	2.916.000.000
(Losses)/earnings per share (Kr.)	0,0051	(0,0117)
Diluted (loses) / earnings per share	0,0051	(0,0117)

33. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Credit risks exposed by the types of financial instruments	Receivables						
	Trade receivables		Other receivables				
31 December 2017	**Related parties**	**Third party**	**Related parties**	**Third party**	**Bank deposits**	**Derivative instruments**	**Other**
Maximum amount of risk exposed as of reporting date (*) (A+B+C+D+E)	**520.941**	**73.672.694**	**-**	**882.431**	**10.897.681**	**8.949.000**	**-**
Secured portion of the maximum credit risk by guarantees etc.	-	34.935.637	-	-	-	-	-
A. Net book value of financial assets neither due nor impaired	520.941	60.918.516	-	882.431	10.897.681	8.949.000	-
B. Net book value of aasets whose conditions renegotiated, otherwise will be classified as past due or impaired	-	-	-	-	-	-	-
C. Net book value of assets past due but not impaired	-	12.754.178	-	-	-	-	-
Secured portion covered by guarantees etc.	-	5.695.692	-	-	-	-	-
D. Net book value of impaired assets	-	-	-	-	-	-	-
- Past due (gross book value)	-	2.726.738	-	-	-	-	-
- Impairment amount (-)	-	(2.726.738)	-	-	-	-	-
- Secured portion covered with guarantees etc.	-	-	-	-	-	-	-
- Not due (gross book value)	-	-	-	-	-	-	-
- Impairment amount (-)	-	-	-	-	-	-	-
- The part covered with guarantees	-	-	-	-	-	-	-
E. Off- balance sheet items including risk	-	-	-	-	-		-

(*) While determining the related amounts, the factors that increase the credit reliability such as guarantees received, have not been considered.

Credit risks exposed by the types of financial instruments	Receivables						
	Trade receivables		Other receivables				
31 December 2016	**Related parties**	**Third party**	**Related parties**	**Third party**	**Bank deposits**	**Derivative instruments**	**Other**
Maximum amount of risk exposed as of reporting date (*) (A+B+C+D+E)	**-**	**76.188.550**	**-**	**1.136.552**	**2.644.869**	**-**	**-**
- Secured portion of the maximum credit risk by guarantees etc.	-	36.757.817	-	-	-	-	-
A. Net book value of financial assets neither due nor impaired	-	69.180.458	-	1.136.552	2.644.869	-	-
B. Net book value of aasets whose conditions renegotiated, otherwise will be classified as past due or impaired	-	-	-	-	-	-	-
C. Net book value of assets past due but not impaired	-	7.008.092	-	-	-	-	-
- Secured portion covered by guarantees etc.	-	4.451.036					
D. Net book value of impaired assets	-	-	-	-	-	-	-
-Past due (gross book value)	-	2.886.251	-	-	-	-	-
-Impairment amount (-)	-	(2.886.251)	-	-	-	-	-
-Secured portion covered with guarantees etc.	-	-	-	-	-	-	-
-Not due (gross book value)	-	-	-	-	-	-	-
-Impairment amount (-)	-	-	-	-	-	-	-
-The part covered with guarantees	-	-	-	-	-	-	-
E. Off- balance sheet items including risk	-	-	-	-	-	-	-

(*) While determining the related amounts, the factors that increase the credit reliability such as guarantees received, have not been considered.

33. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

a.1 Credit risk management

As of 31 December 2017, a portion of trade receivables amounting to TL 388.623 consist of receivables from credit card and maturity up to 3 months (31 December 2016: TL 349.554).

As at balance sheet date, the total amount of overdue receivables and guarantees received for these receivables is as follows:

	31 December 2017	31 December 2016
Overdue for 1-30 days	**9.086.555**	696.061
Overdue for 1-3 months	**2.078.993**	3.014.533
Overdue for 3-12 months	**1.125.051**	1.652.993
Overdue for 1-5 years	**463.579**	1.644.505
Total past due receivables	**12.754.178**	**7.008.092**
Secured portion covered by guarantees etc.	**5.695.692**	4.451.036

Guarantees received for the overdue receivables that not reserved any provision:

	31 December 2017	31 December 2016
Export insurance	5.695.692	4.451.036
	5.695.692	**4.451.036**

a.2 Liquidity risk management

Ultimate responsibility belongs to the Board of Directors for liquidity risk management. The Board of Directors has created an appropriate liquidity risk management for the Group's short, medium and long-term funding and liquidity management requirements. The Group manages the liquidity risk estimation and monitoring of actual cash flows on a regular basis and ensures the availability of adequate funds and borrowing reserves by matching the maturities of financial assets and liabilities.

The following table shows the details of the Group's expected maturity for its non-derivative financial liabilities. Non-derivative financial liabilities is prepared on the basis of undiscounted cash flows and on the earliest dates. The interest payments on the obligations in question were included in the following table.

33. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk table:

31 December 2017

Contractual maturities	Carrying value	Total cash outflows under contracts (I+II)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)
Non-derivative financial liabilities:					
Loans and borrowings	92,960,773	97,642,018	32,260,950	65,381,068	-
Trade payables	64.651.951	65.250.955	44.306.484	20.944.471	-
Total liabilities	**157.612.724**	**162.892.973**	**76.567.434**	**86.325.539**	**-**

Contractual maturities	Carrying value	Total cash outflows under contracts (I+II)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)
Derivatives financial transactions					
Other financial transactions (Cash in/ out)	3.547.571	(8.949.000)	(1.070.250)	(7.878.750)	-
Total assets	**3.547.571**	**(8.949.000)**	**(1.070.250)**	**(7.878.750)**	**-**

31 December 2016

Contractual maturities	Carrying value	Total cash outflows under contracts (I+II)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)
Non-derivative financial liabilities:					
Loans and borrowings	155.881.650	161.407.971	36.616.448	67.092.345	57.699.178
Trade payables	28.334.401	28.657.831	19.314.426	9.343.405	-
Total liabilities	**184.216.051**	**190.065.802**	**55.930.874**	**76.435.750**	**57.699.178**

Contractual maturities	Carrying value	Total cash outflows under contracts (I+II)	Less than 3 months (I)	1-5 years (III)
Derivatives financial transactions				
Other financial transactions (cash in/ out)	2.591.915	89.037.600	-	89.037.600
Total assets	**2.591.915**	**89.037.600**	**-**	**89.037.600**

33. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

b.3) Market risk management

The Group's activities are primarily exposed to financial risks related to changes in foreign currency exchange rates and interest rates, as detailed below.

Market risks are also assessed through sensitivity analyzes.

There has been no change in the Group's exposure to market risk or exposure to risks in its management and measurement methods in the current year.

b.3.1) Currency risk management:

Group is exposed to foreign currency risk, principally the USD, Euro and GBP. The Group controls this risk through a natural method of offsetting foreign currency assets and liabilities. The Group also uses derivative financial instruments (principally foreign exchange forward contracts) to hedge certain financial commitments and related exchange rate fluctuations related to future transactions. Management is responsible for analyzing the Group's foreign exchange position and taking precautions when necessary.

The table below shows the Group's sensitivity to a 10% increase and a decrease in USD, EUR and GBP exchange rates. The 10% rate is used during the reporting of the foreign exchange risk within the Group to the senior management. This means that the rate management indicates the possible change in exchange rates. Sensitivity analysis only covers monetary items at the end of the period in terms of open foreign currencies and shows the effect of the 10% exchange rate change at the end of the year. This analysis includes loans that are used for foreign operations within the Group together with outsourced loans, as well as loans outside the functional currency of the employing parties. Positive value refers to the increase in profit / loss and other equity items.

33. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

b.3.1) Currency risk management (continued)

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

31 December 2017	**TL Equivalent (Functional Currency)**	**USD**	**Euro**	**GBP**	**Other**
1. Trade receivables	60.718.098	4.172.292	9.050.147	809.930	-
2a. Monetary financial assets (Cash, bank accounts included)	10.060.292	223.338	2.018.202	20.607	1
2b. Non-monetary financial assets	-	-	-	-	-
3. Other	-	-	-	-	-
4. Current assets (1+2+3)	**70.778.390**	**4.395.630**	**11.068.349**	**830.537**	**1**
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non- Monetary financial assets	-	-	-	-	-
7. Other	-	-	-	-	-
8. Non-current assets (5+6+7)	-	-	-	-	-
9. Total assets (4+8))	**70.778.390**	**4.395.630**	**11.068.349**	**830.537**	**1**
10. Trade payables	49.169.116	11.683.395	1.084.417	40.123	-
11. Financial liabilities	30.253.850	-	6.700.000		-
12a. Other monetary liability	-	-	-	-	-
12b. Other non-monetary liabilities	-	-	-	-	-
13. Current liabilities (10+11+12)	**79.422.966**	**11.683.395**	**7.784.417**	**40.123**	-
14. Trade payables	-	-	-	-	-
15. Financial liabilities	-	-	-	-	-
16a. Other monetary liabilities	-	-	-	-	-
16b. Other non-monetary liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	-	-	-	-	-
18. Total liabilities (13+17)	**79.422.966**	**11.683.395**	**7.784.417**	**40.123**	-
19. Net asset/liability position of off-balance sheet derivatives (19a-19b)	**(81.279.000)**	**-**	**(18.000.000)**	-	-
19.a Foreign currency derivatives accounted assets	-	-	-	-	-
19b. Foreign currency derivatives accounted liabilities	(81.279.000)	-	(18.000.000)	-	-
20. Net foreign currency position (9-18+19)	**(89.923.576)**	**(7.287.764)**	**(14.716.068)**	**790.414**	**1**
21. Monetary items net foreign currency asset/ liability position (=1+2a+5+6a-10-11-12a-14-15-16a)	(8.644.576)	(7.287.764)	3.283.932	790.414	1
22. Fair value of financial assets for foreign currency hedge	3.547.571	-	-	-	-
23. The amount of Currency Hedged portion of assets	81.279.000	-	18.000.000	-	-
24. The amount of Currency Hedged portion of liabilities	-	-	-	-	-
25. Export	**198.994.603**	**10.450.954**	**34.849.282**	**3.006.338**	-
26. Import	**108.013.466**	**23.701.264**	**3.830.460**	**181.554**	**118.020**

33. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

31 December 2017	TL Equivalent (Functional Currency)	USD	Euro	GBP	Other
1. Trade receivables	54.273.068	2.925.214	11.182.449	577.204	-
2a. Monetary financial assets (Cash, bank accounts included)	763.545	152.319	37.990	19.860	242
2b. Non-monetary financial assets	--	--	--	--	--
3. Other	--	--	--	--	--
4. Current assets (1+2+3)	**55.036.613**	**3.077.533**	**11.220.439**	**597.064**	**242**
5. Trade receivables	--	--	--	--	--
6a. Monetary financial assets	--	--	--	--	--
6b. Non- Monetary financial assets	--	--	--	--	--
7. Other	--	--	--	--	--
8. Non-current assets (5+6+7)	**--**	**--**	**--**	**--**	**--**
9. Total assets (4+8))	**55.036.613**	**3.077.533**	**11.220.439**	**597.064**	**242**
10. Trade payables	18.194.254	4.370.044	749.676	7.866	-
11. Financial liabilities	101.997.794	2.479.732	24.770.873	318.058	-
12a. Other monetary liability	--	--	--	--	--
12b. Other non-monetary liabilities	--	--	--	--	--
13. Current liabilities (10+11+12)	**120.192.048**	**6.849.776**	**25.520.549**	**325.924**	**--**
14. Trade payables	--	--	--	--	--
15. Financial liabilities	--	--	--	--	--
16a. Other monetary liabilities	--	--	--	--	--
16b. Other non-monetary liabilities	--	--	--	--	--
17. Non-current liabilities (14+15+16)	**--**	**--**	**--**	**--**	**--**
18. Total liabilities (13+17)	**120.192.048**	**6.849.776**	**25.520.549**	**325.924**	**--**
19. Net asset/liability position of off-balance sheet derivatives (19a-19b)	**(89.037.600)**	**--**	**(24.000.000)**	**--**	**--**
19.a Foreign currency derivatives accounted assets	--	--	--	--	--
19b. Foreign currency derivatives accounted liabilities	(89.037.600)	--	(24.000.000)	--	--
20. Net foreign currency position (9-18+19)	**(154.193.035)**	**(3.772.243)**	**(38.300.110)**	**271.140**	**242**
21. Monetary items net foreign currency asset/ liability position (=1+2a+5+6a-10-11-12a-14-15-16a)	**(65.155.435)**	**(3.772.243)**	**(14.300.110)**	**271.140**	**242**
22. Fair value of financial assets for foreign currency hedge	**(2.591.915)**	**--**	**(2.591.915)**	**--**	**--**
23. The amount of Currency Hedged portion of assets	89.037.600	--	24.000.000	--	--
24. The amount of Currency Hedged portion of liabilities	**--**	**--**	**--**	**--**	**--**
25. Export	**166.982.461**	**9.409.466**	**35.205.430**	**3.024.012**	**-**
26. Import	**83.328.913**	**21.754.596**	**4.740.157**	**147.752**	**631.493**

33. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

The Group is exposed to foreign exchange risk, due to the impact of rate changes of foreign currency denominated assets and liabilities translated into Turkish Lira the foreign exchange risk, foreign currency position is monitored and limited by the analysis.

	31 December 2017	
	Profit/Loss	
	Appreciation of foreign currency	**Depreciation of foreign currency**
10% change in USD rate		
1- USD net asset/liability	(2.748.872)	2.748.872
2- Hedged amount (-)	-	-
3- USD net effect (1 +2)	**(2.748.872)**	**2.748.872**
10% change in EURO rate		
4- EURO net asset/liability	(6.645.040)	6.645.040
5- Hedged amount (-)	-	-
6- EURO net effect (4+5)	**(6.645.040)**	**6.645.040**
10% change in GBP rate		
7- GBP net asset/liability	401.554	(401.554)
8- Hedged amount (-)	-	-
9- GBP net effect (7+8)	**401.554**	**(401.554)**
10% change in CHF rate		
10- CHF net asset/liability	(1)	1
11- Hedged amount (-)	-	-
12- CHF net effect (10+11)	**(1)**	**1**
TOTAL (3 + 6 +9+12)	**(8.992.359)**	**8.992.359**

	31 December 2016	
	Profit/Loss	
	Appreciation of foreign currency	**Depreciation of foreign currency**
10% change in USD rate		
1- USD net asset/liability	(1.327.527)	1.327.527
2- Hedged amount (-)	-	-
3- USD net effect (1 +2)	**(1.327.527)**	**1.327.527**
10% change in EURO rate		
4- EURO net asset/liability	(5.305.198)	5.305.198
5- Hedged amount (-)	(8.903.760)	8.903.760
6- EURO net effect (4+5)	**(14.208.958)**	**14.208.958**
10% change in GBP rate		
7- GBP net asset/liability	117.102	(117.102)
8- Hedged amount (-)	-	-
9- GBP net effect (7+8)	**117.102**	**(117.102)**
10% change in CHF rate		
10- CHF net asset/liability	68	(68)
11- Hedged amount (-)	-	-
12- CHF net effect (10+11)	**68**	**(68)**
TOTAL (3 + 6 +9+12)	**(15.419.315)**	**15.419.315**

33. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

b.3.2) Interest rate risk management

Group is exposed to interest rate risk due to Group's borrow funds at both fixed and floating interest rates. Mentioned risk is managed by maintaining an appropriate distribution between the fixed and floating rate borrowings by the Group.

The Group's interest rate sensitive financial instruments are as follows:

Interest position table		
	31 December 2017	**31 December 2016**
Financial instruments with fixed interest rate		
Financial liabilities	92.960.773	155.881.650
Time deposits	-	1.300.000
Total	**92.960.773**	**157.181.650**

34. FINANCIAL INSTRUMENTS

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methods. However, estimates are used in the interpretation of market data in the fair value estimation. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

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

1) Monetary assets

The carrying amounts of foreign currency denominated monetary assets which are translated at year end exchange rates are considered to approximate their fair values.

The carrying values of cash and cash equivalents are estimated to be their fair values since they are short term.

The carrying values of trade receivables are estimated to be their fair values.

2) Monetary Liabilities

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

34. FINANCIAL INSTRUMENTS (CONTINUED)

Derivative Financial Instruments (Future contracts)

The Group makes future contracts in foreign currency markets. The aforementioned future contracts made with respect to hedging in accordance with the risk management policies of the Company are recognized with their fair value under "derivative financial assets" (if revenue) or "derivative financial liabilities" (if expense) in financial statements since they do not provide appropriate conditions for hedge accounting according to IAS 39 Financial Instruments: Recognition and Measurement.

Fair value of derivative financial instruments are accepted as future cash income discounted to balance sheet date or public market prices. All the financial instruments are carried as asset when their fair values are positive and as liabilities when they have a negative fair value.

Gains and losses sourcing from increase and decrease in fair values of derivative instruments which cannot provide appropriate conditions for hedge accounting are directly linked with profit or loss statement.

31 December 2017	Loans and receivables (including cash and cash equivalents)	Available for sale financial assets	Amortized financial liabilities	Instruments whose fair value is tracked under equities	Carrying Value	Note
Carrying Value						
Cash and cash equivalents	10.897.936	-	-	-	10.897.936	6
Trade receivables	73.672.694	-	-	-	73.672.694	8
Receivables from related parties	520.941	-	-	-	520.941	7
Derivates financial instruments		-	-	3.547.571	3.547.571	22
Other receivables	882.431	-	-	-	882.431	9
Financial liabilities						
Financial borrowings	-	-	92.960.773	-	92.960.773	18
Trade payables	-	-	64.651.951	-	64.651.951	8
Payables to related parties	-	-	295.288	-	295.288	7
Deferred income	-	-	844.707	-	844.707	9

31 December 2016	Loans and receivables (including cash and cash equivalents)	Available for sale financial assets	Amortized financial liabilities	Instruments whose fair value is tracked under equities	Carrying Value	Note
Financial assets						
Cash and cash equivalents	2.651.312	-	-	-	2.651.312	6
Trade receivables	76.188.550	-	-	-	76.188.550	8
Receivables from related parties	-	-	-	-	-	7
Derivates financial instruments	-	-	-	-	1.136.552	9
Other receivables	1.136.552					
Financial liabilities						
Financial borrowings	-	-	155.881.650	-	155.881.650	18
Trade payables	-	-	25.328.658	-	25.328.658	8
Payables to related parties	-	-	160.501	-	160.501	7
Deferred income	-	-		-	-	9
Derivates financial instruments	-	-	-	2.591.915	2.591.915	6

34. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy:

The Group classifies the financial instruments that are reported with their fair values in the financial statements according to the source of the valuation inputs of each class of financial instruments using the three level hierarchy as follows.:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Fair value measurements using inputs for the assets or liability that are not based on observable market data (i.e.unobservable inputs for the Group, inputs are current rates for similar types of borrowings).

The classification of fair value measurements of financial assets and liabilities measured and / or disclosed at fair value is as follows:

Assets	Level 1	Level 2	Level 3	Total
31 December 2017				
Derivative financial instruments, net	-	3.547.571	-	**3.547.571**
Total	**-**	**3.547.571**	**-**	**3.547.571**

Liabilities	Level 1	Level 2	Level 3	Total
31 December 2016				
Derivative financial instruments, net	-	(2.591.915)	-	**(2.591.915)**
Total	**-**	**(2.591.915)**	**-**	**(2.591.915)**

35. SUBSEQUENT EVENTS

None.

36. OTHER MATTERS THAT MAY HAVE A MATERIAL EFFECT ON, OR BE EXPLAINED FOR THE CLEAR UNDERSTANDING AND INTERPRETATION OF THE FINANCIAL STATEMENTS

None.

Yünsa Yünlü Sanayi ve Ticaret AŞ
2017 Financial Year Annual Report

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