DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2017 TOGETHER WITH
INDEPENDENT AUDITOR’S REPORT

INDEPENDENT AUDITOR'S REPORT

To The General Assembly of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş.

A. Independent Audit of the Consolidated Financial Tables

1. A Qualified Opinion

We have audited the consolidated balance sheet of Doğtaş Kelebek Mobilya Sanayi ve Ticaret AS ("the Company") and its subsidiaries (collectively referred to as the "Group") as of the accounting period ending December 31, 2017 and the consolidated financial statements, comprising the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in shareholders' equity, consolidated cash flow statement also including the summary of significant accounting policies, and the consolidated financial table footnotes for the period then ended.

In our opinion, except for the probable effects of the matters indicated in paragraphs 1 and 2 of the *Basis for the Qualified Opinion* section and the effect of the matter indicated in paragraph 3, the attached consolidated financial statements present fairly in all significant aspects, in accordance with the Turkish Accounting Standards (TAS) the Group's financial position as of December 31, 2017, its consolidated financial performance, and the consolidated cash flows for the accounting period ended on the same date.

2. The Basis for the Qualified Opinion

As explained in Note 25 to the financial statements as of December 31, 2017, the consolidated balance sheet contains a receivables balance generated as a result of the Group's activities that have been significantly overdue for more than 180 days from non-related parties of 15,993,092 Turkish lira and also from related parties of 4,517,182 Turkish lira amounting to a total of 20,510,274 Turkish lira. In addition, due to the translation of trade receivables, which are denominated in foreign currencies and which have been significantly overdue for 180 days and more, to Turkish lira in the period between January 1 and December 31, 2017, the Group management, together with foreign exchange gains of 2,415,100 Turkish lira in the income from other activities account, has recognized interest income amounting to 738,853 Turkish lira. We were unable not obtain sufficient audit evidence to assess whether there is any impairment in the amount of the subject receivable. Accordingly, it is not possible to determine whether any adjustment with respect to the recoverability of this amount is necessary.

2. The Basis for the Qualified Opinion (Continued)

As of December 31, 2017, the Group has dead stocks in the consolidated balance sheet amounting to 27,293,705 Turkish lira representing returns from its 2016 sales. We were unable to obtain sufficient audit evidence to assess whether there is any impairment in the value of the dead stocks concerned. Accordingly, it is not possible to determine whether any adjustment with respect to the recoverability of this amount is necessary.

Group management has assessed that Doğtaş Holland BV, Doğtaş Bulgaria Eood and Doğtaş Germany GmbH should be classified as subsidiaries that are not material to the consolidated financial statements and, as such, have been classified as available-for-sale financial assets in the consolidated financial statements. As available-for-sale financial assets amounting to 9,469,958 Turkish lira, accounted for at cost as per TAS 39 "Financial Instruments: Recognition and Measurement" in the financial statements as of December 31, 2017, these assets have displayed limited movement and due to their total net asset values being uncovered, we have formed an opinion that for the total carrying value of these financial assets, a provision against impairment in the opening consolidated balance sheet as of January 1, 2015, is required to be set aside. Accordingly, had the Group recognized the provision for impairment in the Consolidated Financial Statements, its prior years' losses would have been higher by 9,469,958 Turkish lira.

We performed our independent audit in accordance with the International Standards on Auditing (ISA), that is a part the Turkish Auditing Standards, issued by the Public Oversight, Accounting and Auditing Standards Board ("UPS"). Our responsibilities under these standards are explained in detail in the section of our report, titled "Independent Auditor's Responsibilities Related to the Independent Audit of Consolidated Financial Statements." We declare that we are independent of the Group in accordance with the Code of Ethics for Independent Auditors (Code of Ethics) published by the UPS and the ethical provisions contained in the related regulation with respect to the independent auditing of consolidated financial statements. We have fulfilled the Ethical Rules and other ethical responsibilities in the scope of the regulation. We believe that the independent auditing evidence we acquired during the independent audit provides a sufficient and appropriate basis for the formation of our qualified opinion.

3. Key Audit Matters

In our professional judgment, key audit matters are of the greatest significance in the independent audit of the consolidated financial statements of the current period. The key audit matters are dealt with in the context of the independent audit of the consolidated financial statements and in the formation of our opinion as a whole and we do not express a separate opinion on these matters.

Key Audit Matters	*How was the subject dealt with in the audit*
Recoverability of trade receivables As of December 31, 2017, Trade receivables amounting to 109,488,328 Turkish lira constitute a significant portion of total consolidated assets. However, the provision for the impairment with respect to the trade receivables are accounted for by making estimates taking into consideration any guarantees received from customers, past payment performances of customers and credibility information, and the maturity analysis of receivables balances. These estimates used are highly sensitive to anticipated market conditions in the future. For this reason, the recoverability of receivables is an important issue for our audit. Disclosures on the Group's accounting policies and amounts related to trade receivables are given in Notes 2.4.4 and 4.	During our audit, the following audit procedures related to the recoverability of trade receivables were applied: • Understanding the Group's trade receivables' collection follow-up process, • Understanding and evaluating the follow-up process of customer and dealer receivables, • An analytical review of the receivables aging study and comparison of the collection turnover rate with the previous year, • Investigation of whether there is any dispute or litigation regarding collection and information about receivable follow-up cases from legal counsel, • Sample testing of trade receivables by sending confirmation letters, • Sample testing of collections made in the subsequent period, • Sample testing of the guarantees received from customers and vendors and evaluation of their quality, • Evaluating the adequacy of the disclosures in the consolidated financial statements related to the recoverability of trade receivables. As a result of these studies on the recoverability of trade receivables, we did not have any significant findings other than the issues mentioned in paragraph 1 of the section on the basis for the qualified opinion.

3. Key Audit Matters (Continued)

Key Audit Matters	*How was the subject dealt with in the audit*
Provision for the impairment of inventories Inventories amounting to 187,720,242 Turkish lira included in the consolidated balance sheet as of December 31, 2017, are subject to the risk of being impaired due to rapidly changing customer expectations and home fashion trends. However, the calculation of provision for the impairment of inventory also includes management estimates and assumptions. These estimates and assumptions include the assessment of slow-moving inventories, due to reasons such as technological changes and changing customer demand, and the assessment of the provision for stocks that have been inactive for some time and damaged inventories. For these reasons, the provision for the impairment of inventory is an important issue for our audit. Disclosures on the Group's accounting policies and amounts related to impairment in the value of inventories are provided in Notes 2.4.5 and 6.	During our audit, the following audit procedures in regard to the provision for the impairment of inventories have been applied: • Understanding the accounting policy and assessing the appropriateness of the provision for the impairment of inventories, • Comparison of the inventory turnover rate with the previous year, • Observing whether there are stocks that have not moved for a long time and whether damaged stocks exist during the year-end stock counts, • Sample testing of discounted sales prices used in the calculation of net realizable value. As a result of these studies on the value impairment of stocks we did not have any significant findings other than the issue mentioned in paragraph 1 of the section on the basis for our qualified opinion.

4. Responsibilities of the Management and Members of the Top Management with Responsibilities on the Consolidated Financial Statements

Group management is responsible for the preparation of the consolidated financial statements in accordance with the TAS, for their fair presentation in a way not incorporating any significant mistakes caused by errors or fraud, and for the internal control deemed necessary.

Management, in preparing the consolidated financial statements, is responsible to evaluate the Group's ability to maintain its continuity, to disclose issues on continuity where necessary, and to apply the going concern principle as long as there is no intention or requirement to liquidate the Group or terminate the commercial activity.

Those responsible for senior management are responsible for overseeing the Group's financial reporting process.

5. Independent Auditor's Responsibilities for Independent Audit of Consolidated Financial Statements

In an independent audit, our responsibilities as independent auditors are:

Our goal is to obtain reasonable assurance as to whether the financial statements as a whole contain a significant mistake caused by errors or fraud, and to prepare an independent auditor's report that includes our opinion. A reasonable assurance given at the end of an independent audit conducted according to the ISA is a high level of assurance but it does not always guarantee the detection of the existence of a significant mistake. Mistakes can be due to errors or fraud. These mistakes are deemed important if the mistakes are reasonably expected to affect the economic decisions based on these statements by users of the financial statements alone or collectively.

As required by the independent audit conducted in accordance with the ISA, we use our professional judgment during the independent audit and maintain our professional skepticism. We also:

- Identify and evaluate the risks of "significant mistakes" in the consolidated financial statements caused by errors or fraud; design and implement audit procedures that respond to these risks, obtain sufficient and appropriate audit evidence to provide a basis for the audit. Fraud: since fraud may involve collusion, willful neglect, misrepresentation, and acts of internal control violations, the risk of not being able to detect a significant mistake caused by fraud is higher than not being able to detect a significant mistake caused by error.

- The Group's internal control is evaluated not with the purpose of giving an opinion on its effectiveness, but rather with the purpose of designing audit procedures appropriate to the situation.

- The appropriateness of the accounting policies used by the management and the reasonableness of the explanations furnished in connection with accounting estimates are evaluated.

- Based on the audit evidence obtained, a conclusion is reached as to whether there are any significant events or circumstances that will cause a serious doubt relative to the Group's ability to maintain its continuity and the appropriateness of the management to apply the going concern principle. If we conclude that there is a significant uncertainty, we should draw attention to the relevant disclosures in the financial statements, or, in the event these disclosures are inadequate, we must render an opinion other than an unqualified opinion. The conclusions we have reached are based on the audit evidence obtained until the date of the independent auditor's report. However, any future events or circumstances may terminate the continuity of the Group.

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

- Sufficient and appropriate audit evidence is obtained relating to the financial information on the Group's businesses or activities in order to provide an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and execution of the group audit. We are also solely responsible for the audit opinion we have rendered.

Among other things, we report to persons responsible in the senior management the planned scope and timing of the independent audit, as well as significant audit findings, including any significant internal control deficiencies we identified during the audit.

We have informed those responsible in senior management that we have complied with the ethical provisions regarding independence. We have also communicated to all those responsible in senior management all relations, other matters, and related measures, if any, that may be considered to have an impact on independence.

Among the issues that are reported to those responsible in senior management, we have identified the most important in the independent audit of the consolidated financial statements of the current period, namely key audit matters. Where legislation does not allow the disclosure of the matter to the public or in exceptional circumstances where it is reasonably expected that the negative consequences of public disclosure of the matter will likely exceed the public interest that would arise from public disclosure, we may decide not to report the matter in our independent auditor's report.

B. Other Obligations Arising From The Legislation

1. In accordance with paragraph 4 of Article 402 of the Turkish Commercial Code ("TCC") number 6102 We did not come across any situation in which the record-keeping practice of the Company during the accounting period January 1 - December 31, 2017 violated the provisions of the legislation and the company's articles of association related to financial reporting.

2. In accordance with paragraph 4 of Article 402 of the TCC The Board of Directors has made the required disclosures to us in connection with the scope of the audit and has furnished all the required documents.

3. The Auditor's report on the Early Detection of Risk System and Committee prepared in accordance with paragraph 4 of Article 398 of the TCC was submitted to the Board of Directors on March 1, 2018.

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CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2017
(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

	Notes	2017	2016
ASSETS			
Cash and cash equivalents	3	3,363,130	737,786
Trade receivables		110,498,983	81,114,376
- Trade receivables from related parties	*24*	*4,615,348*	*3,197,367*
- Trade receivables from third parties	*4*	*105,883,635*	*77,917,009*
Other receivables from third parties	5	3,604,693	3,524,277
Inventories	6	187,720,242	142,410,216
Current income tax assets	23	205,596	156,475
Prepaid expenses	8	51,219,612	19,823,938
Other current assets	7	13,602,525	427,901
Current assets		**370,214,781**	**248,194,969**
Assets classified as held for sale	10	491,200	491,200
Total current assets		**370,705,981**	**248,686,169**
Other receivables from third parties	5	1,240,085	446,975
Available-for-sale financial assets	9	9,469,958	9,469,958
Investment properties	11	54,052	55,264
Property, plant and equipment	12	254,286,863	172,078,671
Intangible assets	13	23,286,776	23,054,803
Prepaid expenses		636,036	-
Deferred tax assets	23	-	156,642
Non-current assets		**288,973,770**	**205,262,313**
Total assets		**659,679,751**	**453,948,482**

These financial statements as at 1 January - 31 December 2017 and for the year then ended, have been approved for issue by the Board of Directors on 9 March 2018.

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

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2017
(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

	Notes	2017	2016
LIABILITIES			
Short-term borrowings	14	81,098,235	95,204,131
Short-term portion of long term borrowings	14	58,224,451	42,503,009
Trade payables		228,199,406	127,260,011
- Due to related parties	*24*	-	*70,349*
- Due to other parties	*4*	*228,199,406*	*127,189,662*
Payables related to employee benefits	16	6,367,565	4,803,886
Other payables		13,177,377	975,118
- Other payables from other parties	*5*	*1,410,167*	*975,118*
- Other payables from related parties	*24*	*11,767,210*	-
Deferred revenue	8	36,995,393	56,348,113
Short-term provisions		8,307,952	4,751,999
- Provisions for employee benefits	*16*	*3,711,822*	*2,566,228*
- Other provisions	*15*	*4,596,130*	*2,185,771*
Other current liabilities		122,902	50,977
Total current liabilities		**432,493,281**	**331,897,244**
Long-term borrowings	14	115,772,275	91,235,372
Other payables		621,894	906,312
- Other payables from other parties		*621,894*	*906,312*
Long-term provisions		4,278,027	2,915,003
- Long-term provisions related to employee benefits	*16*	*2,119,647*	*2,082,327*
- Other long-term provisions	*15*	*2,158,380*	*832,676*
Deferred revenue		39,262	38,960
Deferred tax liabilities	23	17,284,790	1,043,194
Total non-current liabilities		**137,996,248**	**96,138,841**
Share capital	18	209,069,767	209,069,767
Reverse merger capital differences	18	(159,069,767)	(159,069,767)
Share premium		282,945	282,945
Treasury shares (-)	18	(10,991)	(10,991)
Other comprehensive income/expense not to be reclassified to profit or loss			
- Increase on revaluation of property and equipment		*115,492,865*	*68,479,964*
- Actuarial gain arising from employee benefits		*1,533,376*	*1,867,562*
Legal reserves	18	607,177	607,177
Accumulated deficit		(93,971,564)	(55,666,145)
Net loss for the period		15,256,414	(39,648,115)
Total equity		**89,190,222**	**25,912,397**
Total liabilities and equity		**659,679,751**	**453,948,482**

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

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017
(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

	Notes	2017	2016
Revenue	19	600,165,348	395,471,738
Cost of sales (-)	19	(376,535,779)	(265,166,697)
Gross profit		**223,629,569**	**130,305,041**
General administrative expenses (-)	20	(25,415,860)	(24,256,338)
Marketing expenses (-)	20	(107,559,191)	(93,966,776)
Research and development expenses (-)	20	(3,560,040)	(3,222,867)
Other operating income	21	40,101,672	15,482,522
Other operating expenses (-)	21	(33,995,401)	(18,003,842)
Operating profit		**93,200,749**	**6,337,740**
Income from investing activities		385,143	581,887
Operating profit before financial income/(expenses)		**93,585,892**	**6,919,627**
Financial income	22	38,312,641	12,553,495
Financial expenses (-)	22	(110,982,335)	(61,581,367)
Loss before tax		**20,916,198**	**(42,108,245)**
Taxation on income:			
Deferred tax income/(expenses)	23	(5,659,784)	2,460,130
Net loss / profit for the period		**15,256,414**	**(39,648,115)**
Earnings/(Losses) per share	28	0.0007	(0.0019)

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017
(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

	Notes	2017	2016
Net loss / profit for the period		**15,256,414**	**(39,648,115)**
Items not to be classified to profit or loss		*48,021,411*	*25,005,349*
Revaluation reserves	12	59,177,619	28,570,801
Remeasurement differences	16	(417,732)	435,904
Deferred tax expense	23	(10,738,476)	(4,001,356)
Other comprehensive to profit or loss		**63,277,825**	**(14,642,766)**

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

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017
(Amounts expressed in Turkish ("TL") unless otherwise stated.)

	Share capital	Share premium	Treasury shares	Legal reserves	Remeasurement differences	Revaluation reserves	Accumulated deficit	Net loss for the period	Total equity
Balance at 1 January 2016	**50,000,000**	**282,945**	**(5,367,595)**	**607,177**	**1,518,839**	**45,166,056**	**(28,677,323)**	**(27,732,446)**	**35,797,653**
Transactions in treasury shares	-	-	5,356,604	-	-	-	(599,094)	-	4,757,510
Transfers	-	-	-	-	-	(1,342,718)	(26,389,728)	27,732,446	-
Total comprehensive loss/profit	-	-	-	-	348,723	24,656,626	-	(39,648,115)	(14,642,766)
Balance at 31 December 2016	**50,000,000**	**282,945**	**(10,991)**	**607,177**	**1,867,562**	**68,479,964**	**(55,666,145)**	**(39,648,115)**	**25,912,397**
Balance at 1 January 2017	**50,000,000**	**282,945**	**(10,991)**	**607,177**	**1,867,562**	**68,479,964**	**(55,666,145)**	**(39,648,115)**	**25,912,397**
Transfers	-	-	-	-	-	(1,342,696)	(38,305,419)	39,648,115	-
Total comprehensive loss/profit	-	-	-	-	(334,186)	48,355,597	-	15,256,414	63,277,825
Balance at 31 December 2017	**50,000,000**	**282,945**	**(10,991)**	**607,177**	**1,533,376**	**115,492,865**	**(93,971,564)**	**15,256,414**	**89,190,222**

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

	Notes	2017	2016
A. CASH FLOWS FROM OPERATING ACTIVITIES		**75,125,463**	**18,969,763**
Net loss for the period		**15,256,414**	**(39,648,115)**
Loss from continuing operations		15,256,414	(39,648,115)
Adjustments to reconcile loss for the period		**81,856,893**	**55,152,395**
Depreciation and amortisation	20	18,896,810	15,843,537
Adjustments related to impairment		1,397,953	182,266
Adjustments related to impairment on receivables	*4*	*1,397,953*	*182,266*
Adjustments related to provisions		6,560,535	2,652,229
Adjustments related to provisions For employment termination benefits		*1,643,790*	*524,659*
Adjustments related to guarantee		*4,813,387*	*1,487,271*
Adjustments related to other provisions		*103,358*	*640,299*
Adjustments related to financial income/ expenses		28,394,961	14,672,227
Adjustments related to financial expenses	*22*	*36,309,314*	*17,828,911*
Adjustments related to financial income	*22*	*(762,953)*	*(11,873)*
Unincurred finance expense		*1,680,425*	*277,652*
Unincurred finance income		*(8,831,825)*	*(3,422,463)*
Adjustments to unrealised foreign currency differences		21,334,010	25,714,518
Adjustments to gain/(loss) on sale of property and equipment		(385,143)	(581,887)
Adjustments to gain/(loss) on sale of property and equipment		*(385,143)*	*(581,887)*
Other adjustments to reconcile gain/(loss)		(2,017)	(870,365)
Adjustments related to tax expenses	23	5,659,784	(2,460,130)
Changes in net working capital		**(21,987,844)**	**3,465,483**
Adjustments related to increases in inventories		(45,310,026)	(37,145,982)
Adjustments related to increases in trade receivables		(32,462,985)	307,557
Decrease/(increase) in trade receivables from related parties		*(31,045,004)*	*1,279,842*
Decrease/(increase) in trade receivables from third parties		*(1,417,981)*	*(972,285)*
Adjustments related to increases in other receivables related with operations		(873,526)	179,369
Adjustments related to increases in other receivables related with operations From third parties		*(873,526)*	*179,369*
Adjustments related to (increase)/decrease in prepaid expenses		(32,031,710)	(4,342,737)
Decrease/(increase) in prepaid expenses from third parties		*(32,031,710)*	*(4,342,737)*
Adjustments related to (increase)/decreases in deferred income		(19,352,418)	41,244,473
Adjustments related to provisions for employment termination benefits		1,563,679	(760,082)
Adjustments related to increase in trade payables		109,771,220	4,497,642
Increase/(decrease) in trade payables to related parties		*(70,349)*	*70,349*
Increase/(decrease) in trade payables to third parties		*109,841,569*	*4,427,293*
Adjustments related to increases in other payables related with operations		11,917,841	816,635
Increase (decrease) in other payables related with operations from related parties		*11,917,841*	*(252)*
Increases/(decreases) in other payables related with operations from third parties		-	*816,887*
Adjustments related to increase/(decrease) in other working capital		(13,150,630)	1,087,348
Increase/decrease in other assets related to operations		*(13,222,555)*	*1,122,020*
Increase/decrease in other liabilities related to operations		*71,925*	*(34,672)*
Employee termination benefits paid		(878,608)	(957,328)
Payments for other provisions		(1,180,681)	(1,461,412)

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

	Notes	2017	2016
B. CASH FLOWS FROM INVESTING ACTIVITIES		**(41,774,213)**	**(13,779,387)**
Cash outflows from purchases of tangible and intangible assets		(42,159,356)	(14,830,292)
Purchases of tangible assets	*13*	*(39,129,603)*	*(9,916,234)*
Purchase of intangible assets	*14*	*(3,029,753)*	*(4,914,058)*
Cash outflows from purchases of held for sale properties	10	-	(65,000)
Proceeds from disposal of tangible and intangible assets		385,143	975,905
Disposal from tangible assets		*385,143*	*975,905*
Proceeds from purchases of assets held for sale properties		-	140,000
C, CASH FLOWS FROM FINANCING ACTIVITIES		**(30,725,906)**	**(11,630,310)**
Interest paid		(32,993,510)	(16,287,581)
Interest received		764,970	11,873
Proceeds from purchase of treasury shares		-	4,757,510
Proceeds from borrowings		228,560,138	85,158,604
Proceeds from bank borrowings		*228,560,138*	*85,158,604*
Payments of financial liabilities		(227,057,504)	(85,270,716)
Cash outflows due to payments of bank borrowings		*(227,057,504)*	*(85,270,716)*
NET DECREASE IN CASH AND CASH EQUIVALENTS BEFORE CURRENCY TRANSLATION DIFFERENCES (A+B+C)		**2,625,344**	**(6,439,934)**
D, CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**4**	**737,786**	**7,177,720**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (A+B+C+D)	**4**	**3,363,130**	**737,786**

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Registered head office:

İdealtepe Mahallesi Rıfkı Tongsir Caddesi No:107/ Küçükyalı, Maltepe - İstanbul.

Registered market:

The Company is registered in Capital Market Board ("CMB") and its shares have been traded in Borsa İstanbul A.Ş. ("BİST") since 1990 (formerly known as "Istanbul Stock Exchange") under the name DGKLB. As of 31 December 2017, 49.99% of its shares are open for trading.

Nature of operations:

The main operating segment is production and sale of furnitures.

The Company's production facilities are located at Doğanlı Köyü 9. km Düzce and İdriskoru Köyü Hacıvenez Mevkii No: 29 Biga Çanakkale and both locations are owned by the Company itself.

Kelebek Mobilya ve Kontrplak Sanayi A.Ş. was founded in Istanbul in 1935. Legal name of the Company which were Kelebek Mobilya ve Kontrplak Sanayi A.Ş. has been changed to Kelebek Mobilya Sanayi ve Ticaret A.Ş. by the decision taken in extraordinary general assembly meeting dated 12 December 2003 and registered to Trade Registry Gazette of Turkey on 29 December 2003.

A chain of retail stores established in 2006 in order to operate in furniture and trade goods sale by 3K Mobilya Dekorasyon San. Ve Tic. A.Ş. ("3K"), which is a subsidiary of the Company. In 2013, the Company has transferred the stores (8 units) to franchisees owned by 3K. 2K Oturma Grupları İnşaat Taahhüt Sanayi ve Ticaret A.Ş. which also is a subsidiary of the Company ceased its operations as of 28 March 2007 and the production facilities were terminated.

Doğtaş Mobilya Pazarlama Ticaret A.Ş. ("Doğtaş Pazarlama") which is a subsidiary of the Company was established in 1996 and operates in selling and marketing of furniture and sofa groups and commercial products. Doğtaş Pazarlama has no branches in Turkey as of 31 December 2017 (2017:None).

Doğ-taş Doğanlar Mobilya İmalat Enerji Üretim Sanayi ve Ticaret A.Ş. ("Doğtaş İmalat") acquired 67% shares of Kelebek Mobilya Sanayi ve Ticaret A.Ş. on 6 September 2012.

In 2013, the merger transaction has been completed in accordance with Turkish Commercial Code Law No. 6102 clause 136 and other merger related clauses in which were Corporate Tax Law article 18, 19, 20, Capital Markets Law from the identifiable net assets of Doğ-Taş Doğanlar Mobilya İmalat Enerji Üretim Sanayi A.Ş. as at 31 December 2013. The merger transaction has been registered on 21 October 2013 and the legal name of the Company changed as Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş.

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

Consolidated financial statements were approved by the Company's Board of Directors to be published on 9 March 2018. The General Assembly and related legal entities have the right to amend the financial statements prepared in accordance with the legal regulations and the financial tables in this consulate.

The shareholding structure of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. as of 31 December 2017 and 2016 is as follows:

	2017		2016	
Shareholder	**TL**	**Proportion of ownership (%)**	**TL**	**Proportion of ownership (%)**
Portion trading on Borsa Istanbul	104,534,884	49.99	16,500,000	7.89
Davut Doğan	16,047,503	7.68	16,047,503	7.68
Adnan Doğan	16,047,484	7.68	16,047,484	7.68
Şadan Doğan	16,047,474	7.68	16,047,474	7.68
İsmail Doğan	16,047,474	7.68	16,047,474	7.68
İlhan Doğan	16,047,474	7.68	16,047,474	7.68
Murat Doğan	16,047,474	7.68	16,047,474	7.68
Doğanlar Yatırım Holding A.Ş.	8,250,000	3.95	-	-
International Furniture B.V.	-	-	96,284,884	46.05
	209,069,767	**100.00**	**209,069,767**	**100.00**

As of 31 December 2017 and 2016, the paid-in share capital of the Company is TL 209,069,767. However, the portion of the capital amounting to TL 159,069,767 is attributable to Doğan Taş Doğanlar Mobilya İmalat Enerji Üretim Sanayi A.Ş. and Kelebek Mobilya Sanayi ve Ticaret A.Ş. during the merger (Note 18).

The subsidiaries within the Group and their nature of operations are as follows:

Subsidiaries	**Registered country**	**Nature of operation**
Doğtaş Mobilya Pazarlama Ticaret A.Ş. ("Doğtaş Pazarlama")	Turkey	Sales and marketing of furniture
Doğtaş Bulgaria Eood ("Doğtaş Bulgaria")	Bulgaria	Sales and marketing of furniture
Doğtaş Holland B.V. ("Doğtaş Holland")	Nederland	Sales and marketing of furniture
Doğtaş Germany GmbH ("Doğtaş Germany")	Germany	Sales and marketing of furniture
2K Oturma Grupları İnşaat ve Taahhüt San. ve Tic. A.Ş. ("2K")	Turkey	Sales of sitting group
3K Mobilya Dekor. San. ve Tic. A.Ş. ("3K")	Turkey	Furniture decoration

The Company's subsidiaries, Doğtaş Holland B.V., Doğtaş Bulgaria Eood and Doğtaş Germany GmbH have been determined as immaterial subsidiaries with respect to the consolidated financial statements by the Group management and classified under available-for-sale financial assets in the consolidated financial statements.

As of 31 December 2017, the number of employees of the Company and its subsidiaries (collectively referred to as the "Group") is 1,495 (2016: 1,300).

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

Adequacy of the Company's share capital under the Turkish Commercial Code:

As a result of the merger between Doğ-Taş Doğanlar Mobilya İmalat Enerji Üretim Sanayi A.Ş. and Kelebek Mobilya Sanayi ve Ticaret A.Ş. in 2013, share capital reached to TL 209,069,767 and while the share capital of the Company were increased to TL 159,069,767 “Reverse Merger Differences” account was charged at the same amount, with respect to Series I, No. 31 of the Communiqué on Principles Regarding Merger Transactions. Such entries were recorded under the books prepared in accordance with Turkish Commercial Code and Capital Market.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

2.1.1 Financial reporting standards

The consolidated financial statements are prepared in accordance with Communiqué Serial II, No: 14.1, “Principles of Financial Reporting in Capital Markets” (“the Communiqué”) published in the Official Gazette numbered 28676 on 13 June 2013. According to Article 5 of the Communiqué, consolidated financial statements are prepared in accordance with the Turkish Accounting Standards (“TAS”) issued by Public Oversight Accounting and Auditing Standards Authority (“POAASA”). TAS contains Turkish Accounting Standards, Turkish Financial Reporting Standards (“TFRS”) and its addendum and interpretations.

In accordance with the CMB resolution issued on 17 March 2005, listed companies operating in Turkey are not subject to inflation accounting effective from 1 January 2005 and the consolidated financial statements of the Group have been prepared accordingly.

The Group and its Turkish subsidiaries maintains their books of accounts and prepares their statutory financial statements in accordance with the principles issued by CMB, the Turkish Commercial Code (“TCC”), tax legislation, the Uniform Chart of Accounts issued by the Ministry of Finance. The foreign subsidiary maintains its books of account in accordance with the laws and regulations in force in the countries in which they operate. These consolidated financial statements have been prepared under historical cost conventions except for the financial assets and investment properties carried at fair value. The consolidated financial statements are based on the statutory records, which are maintained under historical cost conventions, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with TAS. The consolidated financial statements are presented in accordance with “Announcement regarding with TAS Taxonomy” which was published on 2 June 2016 by POAASA and the format and mandatory information recommended.

2.1.2 Comparatives and restatement of prior period’s financial statements

The consolidated financial statements of the Group are prepared comparatively to enable the determination of the trends of the financial position and performance. The Group presented the consolidated balance sheet at 31 December 2017 comparatively with the consolidated balance sheet at 31 December 2016. The Group presented the consolidated statements of income, other comprehensive income, cash flows and changes in equity for the period ended 31 December 2017 comparatively with the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year ended 31 December 2016.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.2 New and amended international financial reporting standards

a) Amendments to published standards and interpretations effective starting from 31 December 2017

- Amendments to TAS 7 "Statement of cash flows" on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. This standard is not expected to have a significant effect on the financial position and performance of the Group.

- Amendments TAS 12 "Income Taxes", effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. These changes related to the accounting for deferred tax assets calculated on unrealized losses explain the method by which deferred tax assets calculated on debt instruments measured at fair value will be accounted for.

- Annual improvements 2014-2016, effective from annual periods beginning on or after 1 January 2017.
  - TFRS 12, "Disclosure of Interests in Other Entities," must be applied retroactively effective from reporting periods starting on January 1, 2017 or later. This change clarifies that, apart from the summary financial information, the disclosure requirement of IFRS 12 will apply to all interests in entities classified as available for sale.

b) Standards, amendments and interpretations issued as of 31 December 2017 but not effective:

- TFRS 9 "Financial instruments", effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in TAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model. This standard is not expected to have a significant effect on the financial position and performance of the Group.

- Amendment to TFRS 15 "Revenue from contracts with customers", effective from annual periods begining on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard. This standard is not expected to have a significant effect on the financial position and performance of the Group. TFRS 12, "Disclosure of Interests in Other Entities," must be applied retroactively effective from reporting periods starting on January 1, 2017 or later. This change clarifies that, apart from the summary financial information, the disclosure requirement of IFRS 12 will apply to all interests in entities classified as available for sale.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.2 New and amended international financial reporting standards (Continued)

b) Standards, amendments and interpretations issued as of 31 December 2017 but not effective: (Continued)

- TFRS 16 "Leases", effective from annual periods beginning on or after 1 January 2019. TFRS 15 allows early application with the 'Revenue from customer contracts' standard. This standard replaces the current guidance in TAS 17 and is a farreaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. Under TFRS 16, contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The effects of the standard on the Group's financial position and performance are being evaluated.

- Amendment to TAS 40 "Investment property" relating to transfers of investment property, effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence. This standard is not expected to have a significant effect on the financial position and performance of the Group.

- Annual improvements 2014–2016, effective from annual periods beginning on or after 1 January 2018.

  - TFRS 1 "First-time adoption of TFRS", regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, TAS 19, and TFRS 10 effective 1 January 2018.

  - TAS 28, "Investments in subsidiaries and joint ventures", provides clarification on the measurement at fair value of a subsidiary or joint venture.

- IFRIC 22 "Foreign currency transactions and advance consideration", effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice. Studies on the impact of the concerned change on the Group's financial position and on its performance have been completed and no significant impact is anticipated.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.2 New and amended international financial reporting standards (Continued)

b) Standards, amendments and interpretations issued as of 31 December 2017 but not effective: (Continued)

- TFRS 17, "Insurance Contracts", is effective from reporting periods starting on or after January 1, 2021. This Standard replaces TFRS 4, which currently allows a wide range of applications. TFRS 15 allows early application with the 'Revenue from customer contracts' standard.

- TFRS 9 "Financial instruments", effective from annual periods beginning on or after 1 January 2018. This amendment confirms that if a financial liability measured at amortized cost is changed without causing a derecognition, the gain or loss should be recognized directly in profit or loss. Gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted from the original effective interest rate. This means that, unlike IAS 39, the difference cannot be recognized by spreading over the remaining life of the instrument.

- TAS 28, "Investments in Associates and Joint Ventures," applies to annual reporting periods that begin on January 1, 2019, or later. It has been clarified that companies that do not apply the equity method for their long-term shareholdings or jointly controlled investments will be using TFRS 9 to account for them.

- TFRS Comment 23, "Uncertainty over Income Tax Treatments," is effective for reporting periods beginning on or after January 1, 2019. This interpretation clarifies some of the uncertainties in the application of the TAS 12 Income Taxes. The IFRS Interpretations Committee clarified that if there was an uncertainty in tax practices, it would be necessary to apply the TMS 37 "Provisions, Contingent Liabilities and Contingent Assets" standard rather than TAS 12 for this uncertainty. TFRS Comment 23 provides guidance on how to measure and account for deferred tax calculations when there are uncertainties in income taxes. Tax application uncertainty arises when there is an uncertainty as to whether a certain tax application by a company is acceptable to the tax authorities. For example, whether a particular expense item can be recognized as a deduction or whether in the calculation of refundable taxes a particular item should or should not be included is unclear in the relevant tax law. TFRS Comment 23 is applicable in situations where the tax treatment of an item is uncertain; and in all situations including the tax bases of taxable income, expense, asset or liability, tax expenses, tax receivables, and tax rates.

The above-mentioned standards are expected to enter into force in 2018 and subsequent years. The Group continues to evaluate the effects that may arise in the consolidated financial statements as a result of the application of the related Standards and does not anticipate a significant impact on its consolidated financial statements outside of the amendments made to TFRS 9, TFRS 15, and TFRS 16.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.3 Changes in accounting policies, estimates and errors

Significant changes in accounting policies or significant errors are corrected, retrospectively; by restating the prior period consolidated financial statements.

The effect of changes in accounting estimates affecting the current period is recognised in the current period; the effect of changes in accounting estimates affecting current and future periods is recognised in the current and future periods.

As of 31 December 2017, there are no significant accounting errors that the Group has identified in the accounting policies.

2.4 Summary of significant accounting policies

Significant accounting policies applied in the preparation of the consolidated financial statements are summarized below:

2.4.1 Basis of consolidation

Consolidated financial statements include the financial statements of the companies controlled by the Group in Note 1. The necessary adjustments have been made to eliminate between group companies sales and purchases, between group receivables and payables and intra-group capital and subsidiaries

Subsidiaries are companies over which the Company has the power to control the financial and operating policies for the benefit of the Company, either (a) through the power to exercise more than 50% of the voting rights relating to shares in the companies as a result of ownership interest owned directly and indirectly by itself, or (b) although not having the power to exercise more than 50% of the ownership interest, and/or as a result of agreements by certain the Company members and companies owned by them whereby the Company exercises control over the ownership interest of the shares held by them; otherwise the power to exercise control over the financial and operating policies.

The table below sets out the subsidiaries and shows the proportion of ownership interests:

	2017		2016	
Subsidiaries	**Direct and indirect ownership interest by the Group**	**Proportion of effective interest**	**Direct and indirect ownership interest by the Group**	**Proportion of effective interest**
Doğtaş Pazarlama	100.00	100.00	100.00	100.00
2K	100.00	100.00	100.00	100.00
3K	100.00	100.00	100.00	100.00

The Group fully consolidated the individual income and expenses and assets and liabilities. Investment in subsidiaries are eliminated with the capital of the subsidiaries invested.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

2.4.1 Basis of consolidation (Continued)

Subsidiaries are consolidated from the date on which the control is transferred to the Group and are deconsolidated from the date that the control ceases. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

2.4.2 Related parties

Shareholders, members of Board of Directors and key management personnel, in each case together with their families and companies controlled by or affiliated with them, joint ventures and associates are considered and referred to as related parties.

2.4.3 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term liquid investments with original maturities of 3 months or less.

2.4.4 Trade receivables

Trade receivables that are recognised by way of providing goods or services directly to a debtor are accounted for initially at fair value and subsequently are measured at amortised cost, using the effective interest method, less provision for impairment, if any.

A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount. The recoverable amount is the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted by the original effective interest rate of the originated receivables at inception.

If the amount of the impairment subsequently decreases due to an event occurring after the writedown, the release of the provision is credited to the consolidated statement of income.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

2.4.5 Inventories

Inventories are valued at the lower of cost or estimated selling price less estimated costs necessary to make a sale. Cost elements included in inventory are purchase costs and other costs necessary to prepare the asset for its intended use. Cost elements included in inventories are materials, labor and production overheads.

The cost is determined using the monthly weighted average method for inventories. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

2.4.6 Assets held for sale

Assets held for sale are comprise of real-estates which were obtained from customers whose receivables are past due. These assets are measured at the lower of cost or estimated selling price less estimated costs necessary to make a sale and depreciation process is ceased for abovementioned assets. When right of usage is earned by court order or customer consent, the respective amount for impairment reclassified to assets held for sale after offsetting its cost, and the difference between fair value of asset and the amount of trade receivables is recognized in the consolidated statement of profit or loss. When these assets are sold, the difference between the consideration and carrying value of asset is recognized in the consolidated statement of income.

2.4.7 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the period in which they arise.

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

Depreciation is calculated for investment property using linear depreciation method based on their economic lives. Their useful life is identified as 50 years.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

2.4.8 Property, plant and equipment

Land, land improvements and buildings and machinery and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated impairment losses. The Group can make the fair value assessments between 3 and 5 years. The Group has revised its assessment of the fair value of tangible fixed assets as of the balance sheet date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the relevant asset, and the net amount is restated to the revalued amount of the assets.

Property, plant and equipment are carried at the acquisition cost less accumulated depreciation and impairment, if any. Land is not depreciated. Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

A decrease in carrying amount arising on the revaluation of such buildings is charged to profit or loss to the extent that is exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognized.

The depreciation periods for property and equipment, which approximate the estimated economic useful lives of such assets, are as follows:

Land improvements	15 - 50 years
Machinery, plant and equipment	5 - 28 years
Furniture and fixtures	2 - 15 years
Vehicles	4 - 5 years
Leasehold improvements	4 - 5 years

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

2.4.8 Property, plant and equipment

Estimated useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The cost of an item of property, plant and equipment comprises:

- Acquisition costs, including import duties and non-refundable purchase taxes, less discounts and rebates
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating
- Employee benefits arising directly from the construction or acquisition of the item of the asset
- Site preparation and expropriation costs for the construction works
- Initial delivery and handling costs
- Installation and assembly costs
- Professional fees
- Borrowing costs eligible for capitalisation

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset less the costs of disposal. Value in use is the present value of the future cash flows expected to be derived from an asset.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other operating income or other operating expense in the consolidated statement of income.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

2.4.9 Intangible assets

Intangible assets are presented with net book value after deduction of amortisation. Intangible assets are capitalized if future economic benefits arising from intangible assets are going to be beneficial to the firm and cost can be measured.

Purchased intangible assets are amortised on a straight-line basis over their useful lives for two to five years.

Intangible assets include acquired rights and copyrights.

Kelebek brand value

Doğ-taş Doğanlar Mobilya İmalat Enerji Üretim Sanayi ve Ticaret A.Ş., acquired 67% shares of Kelebek Mobilya Sanayi ve Ticaret A.Ş. on 6 September 2012. The value of the Kelebek brand acquired through this acquisition has been recorded at fair value on 6 September 2012 in accordance with TFRS 3 and the financial statements have unlimited life for this brand with no legally restricted use. The brand value is subject to an impairment test once a year.

2.4.10 Available for sale financial assets

Doğ-taş Doğanlar Mobilya İmalat Enerji Üretim Sanayi ve Ticaret A.Ş., acquired 67% shares of Kelebek Mobilya Sanayi ve Ticaret A.Ş. on 6 September 2012. The value of the Kelebek brand acquired through this acquisition has been recorded at fair value on 6 September 2012 in accordance with TFRS 3 and the financial statements have unlimited life for this brand with no legally restricted use. The brand value is subject to an impairment test once a year.

2.4.11 Taxes on income

Taxes on income for the period comprise current tax and the change in deferred income taxes. Current year tax liability consists of the taxes calculated over the taxable portion of the current year income by reference to corporate income tax rates enacted as of the balance sheet date and adjustments provided for previous years' income tax liabilities.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax base of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income taxes.

Deferred income tax liabilities are recognised for all taxable temporary differences, whereas deferred income tax assets resulting from deductible temporary differences, deductible tax losses carried forward and unused investment allowances are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised.

Deferred income tax assets and deferred income tax liabilities related to income taxes levied by the same taxation authority are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

2.4.12 Impairment of non-financial assets

The carrying values of assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Value in use is the present value of estimated future cash flows expected to arise from the use of an asset and from its disposal at the end of its useful life while the net selling price is the amount that will be collected from the sale of the asset less costs of disposal. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or group of assets.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or has decreased. The reversal is recorded in the statement of income.

2.4.13 Financial investments

Classification

The Group classifies its financial assets in the following categories: loans and receivables, availablefor-sale financial assets and held to maturity financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of reporting period. Those with maturities greater than 12 months are classified as non-current assets. The receivables are classified as "trade and other receivables" in the consolidated balance sheets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose it within 12 months of the end of reporting period.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

2.4.13 Financial investments (Continued)

Recognition and measurement

Loans and receivables are carried at amortised cost using the effective interest method. The translation differences on monetary securities are recognized in the income statement; translation differences on non-monetary securities are recognized in equity.

If the market for a financial asset is not active and the fair value of the financial asset cannot be measured reliably, aforementioned financial assets are accounted for cost less impairment in the consolidated financial statements.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss is removed from equity and recognized in the statement of income. Impairment losses recognized in the statement of income on equity instruments are not reversed through the statement of income.

2.4.14 Borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale. All other borrowing costs are charged to the consolidated statement of income when they are incurred.

2.4.15 Trade payables

Trade payables represent mandatory payments for goods and services provided by suppliers for the ordinary activities of the business. Trade payables are recognized initially at fair value and are subsequently measured at amortised cost using the effective interest rate method.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

2.4.16 Employee benefits

Defined benefit plans:

In accordance with existing social legislation in Turkey, the Company is required to make lump-sum termination indemnity payments to each employee who has completed over one year of service with the Company and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. As detailed in Note 14, the employee benefit liability is provided for in accordance with TAS 19 "Employee Benefits" and is based on an independent actuarial study. Actuarial gains and losses that calculated by professional actuarials, are recognized in the actuarial gain/loss fund regarding employee termination benefits in the equity. Recognized gains and losses shall not be transferred to comprehensive statement of income in the following periods. Reserve for employee termination benefits is recognized to financial statements that calculated with the discount rate estimated by professional actuarial.

Unused vacation

Unused vacation rights accrued in the consolidated financial statements represents estimated total provision for potential liabilities related to employees' unused vacation days as of the balance sheet date.

2.4.17 Provisions, contingent assets and contingent liabilities

Provision are recognised in the consolidated financial statements, when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate, used to calculate the present value of the provision should be pre-tax rate reflecting the current market assessments of the time value of money and the risks specific to the liability. The discount rate shall not reflect risks for which future cash flow estimates have been adjusted.

A possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group have not been recognised in these consolidated financial statements and treated as contingent liabilities and contingent assets.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

2.4.18 Revenue recognition

Sales revenue

Revenue includes the invoiced values of goods sales. Revenue is recognized on the accrual basis at the fair value of the consideration received or receivable, the delivery of the product, the transfer of the risks and benefits related to the product, the amount of revenue can be reliably determined and the economic benefits related to the transaction are likely to flow to the Group. Significant risks and benefits during the sale are transferred when the goods are delivered to the buyer or when the legal owner passes to the buyer. Net sales represent the invoiced value of delivered goods, excluding sales returns and sales tax.

Interest Income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. The interest calculated is recognised as interest income.

2.4.19 Offsetting

All items with significant amounts and nature, even with similar characteristics, are presented separately in the consolidated financial statements. Insignificant amounts are grouped and presented by means of items having similar substance and function.

2.4.20 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new options are shown in equity as a deduction from the proceeds.

2.4.21 Treasury shares

The Group recognises consideration fee paid to acquire its own shares under "treasury shares" account in equity. In case of a resale of those treasury shares, difference between the consideration received and paid is recognized in accumulated losses.

2.4.22 Dividend distribution

Dividend distribution to the shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

2.4.23 Earnings or losses per share

Basic earnings per share is calculated by dividing the net profit for the period by the weighted average number of ordinary shares outstanding during the period. All shares of the Company are in same status.

2.4.24 Events after the balance sheet date

The Group adjusts the amounts recognised in the consolidated financial statements to reflect the adjusting events after the balance sheet date. If non-adjusting events after the balance sheet date have material influences on the economic decisions of users of the financial statements, they are disclosed in the notes to the consolidated financial statements.

2.4.25 Cash flow statement

Cash flows during the period are classified and reported by operating, investing and financing activities in the consolidated statements of cash flows.

Cash flows related to operating activities represent the cash flows of the Group generated from energy and transportation activities.

Cash flows related to investing activities represent the cash flows that are used in or provided from the investing activities of the Group.

Cash flows related to financing activities represent the cash proceeds from the financing activities of the Group and repayments of these funds.

Cash and cash equivalents comprise cash on hand and bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash with maturities equal or less than three months and which are subject to an insignificant risk of changes in value.

2.5 Going concern

The consolidated financial statements were prepared under the going concern assumption.

2.6 Significant accounting estimates and assumptions

The preparation of the consolidated financial statements necessitates the use of estimates and assumptions that affect asset and liability amounts reported as of the balance sheet date, explanations of contingent liabilities and assets; and income and expense amounts reported for the accounting period. Although these estimates and assumptions are based on all management information related to the events and transactions, actual results may differ from them. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities for the next reporting period are outlined below:

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.6 Significant accounting estimates and assumptions (Continued)

2.6.1 Useful lives of tangible and intangible assets

In accordance with the accounting policy stated in Note 2.4.8 and Note 2.4.9 tangible and intangible assets depend on the best estimates of management, and are reviewed in each financial period and corrected accordingly.

2.6.2 Revaluation of land, land improvements buildings and machinery and equipment

Land, land improvements, machinery and equipment and buildings that were revalued at 31 December 2016 by independent external valuers, were recorded on determined fair values on the consolidated financial statements. The frequency of revaluation operations is determined to ensure that the carrying amounts of the revalued tangible assets are not significantly different from their fair values at the end of the reporting period. The frequency of revaluation depends on the change in the fair value of property, plant and equipment. In cases where it is believed that the revalued amount is significantly different from the carrying amount of the revalued amount, it is necessary to repeat the revaluation and the assessment is performed for the entire asset level with revalued assets at the same date. Besides, it is not considered necessary to repeat the revaluation for tangible assets whose fair value changes are insignificant.

There are various calculation methods to estimate best fair value calculation as follows:

- The fair value comparison method are found to be comparable to the new market with similar features in the existing market, to apply appropriate comparison procedures and to make various adjustments in comparable selling price.

- The fair value of buildings, land and land improvements are calculated in deference to amortisation and reconstruction cost on cost approach method.

The values that may occur during the realization of the purchase and sales transaction may differ from these values.

The values are determined by cost approach method are assessed as to whether or not there is any indication of impairment according to TAS 36 "Impairment of Assets" standard at the date of first presentation of the financial statements in the consolidated financial statements and related period ends.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.6 Significant accounting estimates and assumptions (Continued)

2.6.3 Warranty expenses provision

Warranty expenses are recognized on an accrual basis for amounts estimated based on prior periods' realization. It is expected that the payment will be occur in the next fiscal year. The management decides on demand warranty information, historical demand information in and the circumstances that future demand forecasts of current trends will need to change.

The Group generally guarantees 24 months for the furniture products. The management decides on demand warranty information, historical demand information in and the circumstances that future demand forecasts of current trends will need to change. The current year estimations are consist with prior year estimations. The factors that may affect forecasted demands include part and labor costs as well as the Group's efficiency and quality initiatives' success. The carrying amount of provision is 5,135,261 TL on 31 December 2017 (2016: TL 1,502,555). If the estimation had appreciated/depreciated by 10%, the provision amount would have been 513,626 TL higher/lower (2016: TL 150,626 higher/lower).

2.6.4 Taxation on income

Deferred income tax assets are recognized to extent that the realisation of the related tax benefit through the future taxable profits is probable. Deferred income tax assets are recognized for tax losses carried forward and unused investment incentives to extent that the realisation of the related tax benefit is probable.

As at 31 December 2017, the Group recognised deferred income tax assets amounting to TL 9,103,117 (31 December 2016: TL 13,085,716) over the carryforward tax losses amounting to TL 41,377,804 (31 December 2016: TL 65,248,578).

The Group management estimated that carryforward tax losses amounting to TL 41,377,804 will be utilized considering its budgeted financial statements which were prepared in accordance with the approved 5-years business plan.

NOTE 3 - CASH AND CASH EQUIVALENTS

The details of the cash and cash equivalents as of 31 December 2017 and 2016 are as follows:

	2017	**2016**
Cash	24,317	58,266
Banks		
- Demand deposit	3,099,651	536,953
Credit card receivables	239,162	142,567
	3,363,130	**737,786**

NOTE 4 - TRADE RECEIVABLES AND PAYABLES

The details of the trade receivables and payables as of 31 December 2017 and 2016 are as follows:

Short term trade receivables

	2017	**2016**
Customers	100,387,961	74,318,415
- Due from related parties (Note 24)	*4,615,348*	*3,197,367*
- Other	*95,772,613*	*71,121,048*
Cheques and notes receivable	12,906,864	7,911,378
Doubtful of receivables	19,992,777	18,594,824
Provision for doubtful of receivables (-)	(19,992,777)	(18,594,824)
Unearned finance income (-)	(2,795,842)	(1,115,417)
	110,498,983	**81,114,376**

As at 31 December 2017 the average term of trade receivables is less than 3 month. (2016: less than 2 month). The maturity of the trade receivables of the Group varies and the interest rate applied for trade receivables is 14.90% (2016: 11.00%).

Trade receivables amounting to TL 38,244,261 (2016: TL 19,654,649) as at 31 December 2017 have not been evaluated as doubtful receivables despite the past due. The maturity analysis of these receivables is as follows(Note 25)

Since the average collection period of trade receivables is shorter, the fair values of trade receivables were considered to approximate their respective carrying values.

Movements of provision for doubtful trade receivables for the years ended 31 December 2017 and 2016 are as follows:

	2017	**2016**
Balance at the beginning of the period	**18,594,824**	**18,412,558**
Provisions	1,397,953	182,266
Balance at the end of the period	**19,992,777**	**18,594,824**

Short term trade payables	**2017**	**2016**
Supplier current accounts	87,509,139	70,363,909
- Due to related parties (Note 24)	-	*70,349*
- Other	*87,509,139*	*70,293,560*
Cheques and notes payable	154,219,426	61,593,436
Unincurred finance cost (-)	(13,529,159)	(4,697,334)
	228,199,406	**127,260,011**

NOTE 4 - TRADE RECEIVABLES AND PAYABLES (Continued)

As of 31 December 2017 the average term of trade payables is less than 3 month. (31 December 2016: less than 3 months). The interest rate applied for trade receivables is 14.90%.

Since the average maturity of trade receivables in short-term, the fair values of trade payables were considered to approximate their respective carrying values.

NOTE 5 - OTHER RECEIVABLES AND PAYABLES

Short-term other receivables	**2017**	**2016**
Deposits and guarantees given	3,049,445	2,843,035
Receivables from tax authority	412,894	631,190
Receivables from personnel	142,354	50,052
	3,604,693	**3,524,277**

Long-term other receivables	**2017**	**2016**
Other receivables	732,281	-
Deposits and guarantees given	507,804	446,975
	1,240,085	**446,975**

Short-term other payables	**2017**	**2016**
Other payables	11,773,569	4,038
- Due to related parties (Note 24)	*11,767,210*	-
- Other	*6,359*	*4,038*
Taxes and funds payable	1,403,808	971,080
	13,177,377	**975,118**

NOTE 6 - INVENTORIES

	2017	**2016**
Raw materials and supplies	104,870,119	90,973,717
Semi-finished goods	22,779,116	15,160,138
Finished goods	29,844,491	17,849,742
Trade goods	30,226,516	18,426,619
	187,720,242	**142,410.216**

NOTE 7 – OTHER CURRENT ASSETS

Other current asset	**2017**	**2016**
Deferred VAT	13,596,476	326,341
Advences given to personnel	1,052	96,560
Other	4,997	5,000
	13,602,525	**427,901**

(*) As of February 3, 2017, the VAT rate for the furniture industry was set at 8 percent, this practice was ended on September 30, 2017, and the VAT rate reverted to 18 percent. The amount represents the accumulated VAT receivable by the Company between the periods, and it is envisaged that it will be fully utilized within one year.

NOTE 8 - PREPAID EXPENSES AND DEFERRED REVENUE

Short-term prepaid expenses

	2017	**2016**
Advances given for inventories	50,111,384	18,350,934
Prepaid expenses	1,108,228	1,473,004
	51,219,612	**19,823,938**

The order advances given consist of advances given by the Group for raw material purchases.

Short-term deferred revenue	**2017**	**2016**
Advances received	36,080,548	55,413,828
Deferred revenue	914,845	934,285
	36,995,393	**56,348,113**

Advances received comprise of notes receivables obtained from the franchisee.

NOTE 9 - AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group's financial investments consist of investments classified as available-for-sale financial assets. The details of the financial investments as of 31 December 2017 and 2016 are as follows:

	2017		2016	
	Ownership interest (%)	**Carrying amount (TL)**	**Ownership interest (%)**	**Carrying amount (TL)**
Doğtaş Holland	100.00	4,657,668	100.00	4,657,668
Doğtaş Germany	100.00	3,393,430	100.00	3,393,430
Doğtaş Bulgaria	100.00	1,418,860	100.00	1,418,860
		9,469,958		**9,469,958**

Available-for-sale investments that do not have a quoted market price in active markets and whose fair value cannot be measured reliably are carried at cost less any provision for diminution in value.

NOTE 10 – AVAILABLE–FOR-SALE PROPERTIES

	2017	**2016**
Balances at 1 January	**491,200**	**566,200**
Additions	-	65,000
Disposal (-)	-	(140,000)
Balances at 31 December	**491,200**	**491.200**

As of 31 December 2017, available for sale real estates consist of buildings acquired from customers in the past periods that were intentionally turned into doubtful receivables.

The aim of the Group's management is to remove the real estates in a short period of time.

NOTE 11- INVESTMENT PROPERTIES

	1 January 2017	Additions	31 December 2017
Cost:			
Buildings	60,600	-	60,600
	60,600	**-**	**60,600**
Accumulated amortisation:			
Buildings	(5,336)	(1,212)	(6,548)
	(5,336)	**(1,212)**	**(6,548)**
Net book value	**55,264**		**54,052**

	1 January 2016	Additions	31 December 2016
Cost			
Buildings	60,600	-	60,600
	60,600	**-**	**60,600**
Accumulated amortisation:			
Buildings	(4,124)	(1,212)	(5,336)
	(4,124)	**(1,212)**	**(5,336)**
Net book value	**56,476**		**55,264**

As at 31 December 2017, the fair value of investment property is determined by cost method and the amount is TL 434,081.

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

	1 January 2017	Additions	Disposals	Transfers	Revaluation	31 December 2017
Cost:						
Land	43,773,000	-	-	-	10,135,240	53,908,240
Land improvements and buildings	77,882,324	3,558,304	-	2,685,470	7,189,112	91,315,210
Machinery, plant and equipment	75,917,058	2,111,916	(578,776)	-	41,853,267	119,303,465
Vehicles	1,486,795	-	(373,001)	-	-	1,113,794
Furniture and fixtures	45,717,698	12,745,460	(3,224)	-	-	58,459,934
Leasehold improvements	27,696,904	6,177,002	-	296,610	-	34,170,516
Construction in progress	3,135,143	14,536,921	-	(2,982,080)	-	14,689,984
	275,608,922	**39,129,603**	**(955,001)**	**-**	**59,177,619**	**372,961,143**
Accumulated deprecation:						
Land improvements and buildings	(17,805,324)	(2,146,126)	-	-	-	(19,951,450)
Machinery, plant and equipment	(44,659,338)	(2,386,613)	578,776	-	-	(46,467,175)
Vehicles	(1,486,795)	-	373,001	-	-	(1,113,794)
Furniture and fixtures	(27,789,491)	(6,112,983)	3,224	-	-	(33,899,250)
Leasehold improvements	(11,789,303)	(5,453,308)	-	-	-	(17,242,611)
	(103,530,251)	**(16,099,030)**	**955,001**	**-**	**-**	**(118,674,280)**
Net book value	**172,078,671**					**254,286,863**

As at 31 December 2017 and 2016, total mortgages on property, plant and equipment of the Group amounting to EUR 70,000,000 and TL 60,000,000,

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	January 2016	Additions	Disposals	Transfers	Revaluation	31 December 2016
Cost:						
Land	31,773,097	-	-	-	11,999,903	43,773,000
Land improvements and buildings	61,241,460	69,966	-	-	16,570,898	77,882,324
Machinery, plant and equipment	74,767,138	1,167,972	(18,052)	-	-	75,917,058
Vehicles	1,949,995	-	(463,200)	-	-	1,486,795
Furniture and fixtures	39,723,063	5,929,635	-	65,000	-	45,717,698
Leasehold improvements	23,200,172	4,655,754	(570,735)	411,713	-	27,696,904
Construction in progress	5,518,949	515,634	-	(2,899,440)	-	3,135,143
	238,173,874	**12,338,961**	**(1,051,987)**	**(2,422,727)**	**28,570,801**	**275,608,922**
Accumulated deprecation:						
Land improvements and buildings	(15,858,191)	(1,947,133)	-	-	-	(17,805,324)
Machinery, plant and equipment	(42,601,507)	(2,075,883)	18,052	-	-	(44,659,338)
Vehicles	(1,949,995)	-	463,200	-	-	(1,486,795)
Furniture and fixtures	(23,120,052)	(4,669,439)	-	-	-	(27,789,491)
Leasehold improvements	(7,307,348)	(4,658,672)	176,717	-	-	(11,789,303)
	(90,837,093)	**(13,351,127)**	**657,969**	**-**	**-**	**(103,530,251)**
Net book value	**147,336,781**					**172,078,671**

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Revalued assets

The land and buildings carried on the revaluation method consist of the factory buildings of the Group and their buildings. The comparative method in the value analysis of the arcs, the cost approach method in the case of determining the values of the entire buildings.

The fair value determinations were made by the valuation companies with the license of the Capital Markets Board.

Significant unobservable entries:

Price per square meter of land 130 TL - 160 TL
Price per square meter of building 540 TL - 670 TL

Significant increases and decreases in the square meter prices will significantly change the value of the determined reality.

If the revalued assets were carried at cost model, net book value would be TL 48.498.471 as of 31 December 2017.

NOTE 13 - INTANGIBLE ASSETS

	1 January 2017	Additions	Transfers	31 December 2017
Cost:				
Brand	17,530,000	-	-	17,530,000
Rights	14,511,437	3,029,753	-	17,541,190
	32,041,437	**3,029,753**	**-**	**35,071,190**
Accumulated amortisation:				
Rights	(8,986,634)	(2,797,780)	-	(11,784,414)
	(8,986,634)	**(2,797,780)**	**-**	**(11,784,414)**
Net book value	**23,054,803**			**23,286,776**

NOTE 13 - INTANGIBLE ASSETS (Continued)

	1 January 2016	Additions	Transfers	31 December 2016
Cost:				
Brand	17,530,000	-	-	17,530,000
Rights	9,597,379	2,491,331	2,422,727	14,511,437
	27,127,379	**2,491,331**	**2,422,727**	**32,041,437**
Accumulated amortisation:				
Rights	(6,495,436)	(2,491,198)	-	(8,986,634)
	(6,495,436)	**(2,491,198)**	**-**	**(8,986,634)**
Net book value	**20,631,943**			**23,054,803**

NOTE 14 – BORROWINGS

The details of the borrowings as of 31 December 2017 and 2016 are as follows:

	2017		
	Effective interest rate per annum (%)	**Original currency**	**TL**
Short-term borrowings:			
EUR denominated bank borrowings	%0.75 - %5.52	9,158,678	41,356,009
TL denominated bank borrowings	%13.75 - %15.80	39,742,226	39,742,226
			81,098,235
Short-term portion of long-term borrowings:			
EUR denominated bank borrowings	%0.75 - %5.52	8,986,030	40,576,420
TL denominated bank borrowings	%13.75 - %15.80	17,648,031	17,648,031
Total short-term borrowings			**139,322,686**
Long-term bank borrowings:			
EUR denominated bank borrowings	%0.75 - %5.52	19,656,279	88,757,929
TL denominated bank borrowings	%13.75 - %15.80	27,014,346	27,014,346
Total bank borrowings			**255,094,961**

NOTE 14 – BORROWINGS (Continued)

	2016		
	Effective interest rate per annum (%)	**Original currency**	**TL**
Short-term bank borrowings:			
EUR denominated bank borrowings	%0.75 - %5.52	16,558,668	61,431,002
TL denominated bank borrowings	%13.75 - %15.80	33,773,129	33,773,129
			95,204,131
Short-term portion of long-term borrowings:			
EUR denominated bank borrowings	%0.75 - %5.52	11,456,645	42,503,009
Total short-term borrowings			**137,707,140**
Long-term bank borrowings:			
EUR denominated bank borrowings	%0.75 - %5.52	24,592,407	91,235,372
Total bank borrowings			**228,942,512**

The redemption schedule of long-term borrowings is as follows:

	2017	**2016**
Up to 3 months	53,349,638	79,829,059
3-12 months	85,973,048	57,878,081
1-5 years	115,772,275	91,235,372
	255,094,961	**228,942,512**

The net financial debt reconciliation as of 31 December 2017 is as follows:

	Short term borrowings	**Long term borrowings**	**Cash and cash similar**	**Net financial debt**
January 1, 2017	**(137,707,140)**	**(91,235,372)**	**737,786**	**(228,204,726)**
Effect of cash flow	24,058,121	(22,555,487)	2,312,547	3,815,181
Foreign currency adjustments	(22,357,863)	(1,981,416)	312,797	(24,026,482)
Interest accruals	(3,315,804)	-	-	(3,315,804)
December 31, 2017	**(139,322,686)**	**(115,772,275)**	**3,363,130**	**(251,731,831)**

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Short-term provisions:	**2017**	**2016**
Provision for warranty expenses	2,976,881	669,879
Provision for litigations	1,462,584	887,798
Provision for project expenses	156,665	628,094
	4,596,130	**2,185,771**

Long-term provisions:

	2017	**2016**
Provision for warranty expenses	2,158,380	832,676

Movements in the provision for warranty expense are as follows:

	2017	**2016**
Balance at 1 January	**1,502,555**	**1,476,696**
Additions	4,813,387	1,487,271
Payments	(1,180,681)	(1,461,412)
Balance at 31 December	**5,135,261**	**1,502,555**

Movements in the provision for litigation are as follows:

	2017	**2016**
Balance at 1 January	**887,798**	**483,198**
Additions	574,786	404,600
Balance at 31 December	**1,462,584**	**887,798**

Movements in the provision for project expenses are as follows:

	2017	**2016**
Balance at 1 January	**628,094**	**392,395**
Additions,net	(471,429)	235,699
Balance at 31 December	**156,665**	**628,094**

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

Contingent assets and liabilities:

As at 31 December 2017 total mortgages on property, plant and equipment of the Group amounting to EUR 70,000,000 and TL 60,000,000 (2016: 70,000,000 Euro and 22,500,000 TL).

Summary of guarantees received and given is stated below:

Guarantees given	**2017**	**2016**
Letters of guarantees given (*)	376,085,000	282,193,000
Letters of guarantees given to government institutions (**)	102,822,345	103,087,036
Letters of guarantees given to customers	3,434,372	1,769,566
Letters of guarantees given to suppliers	522,806	589,438
	482,864,523	**387,639,040**

(*) Mortgages on property, plant and equipment are related to loans used for purchasing and financing purposes.
(**) Consists of letters of guarantees given to Türkiye İhracat Kredi Bankası A.Ş. with respect to loans used mainly.

Guarantees received	**2017**	**2016**
Letter of guarantees received from franchisees	73,555,039	100,932,235
Mortgages received from domestic franchisees	17,500,718	17,916,135
Mortgages received from foreign franchisees	7,557,531	7,804,616
	98,613,288	**126,652,986**

As of 31 December 2017 and 31 December 2016, breakdown of the guarantees, mortgage and pledges given by the Group is as follows:

	2017	**2016**
Total amount of guarantees, pledges and mortgages given on behalf of its own legal name	482,864,523	395,531,585

NOTE 15 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

The GPMs given by the Group comprise of letter of guarantees on behalf of its own legal name. Below GPMs were given by the Group:

a) On behalf of associates that are included to full consolidation,
b) On behalf of third parties to conduct business activities,
c) On behalf of majority shareholder,
d) On behalf of other group companies which are not included in item a or b
e) On behalf of third parties which are not covered by item b.

The total number of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. ordinary shares 9,628,488,350 shares with a par value of 1 TL per share hold in pledge because of Group's borrowing on 31 December 2017 (The total number of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. ordinary shares 19,256,976,700 shares with a par value of 1 TL per share hold in pledge because of Group's borrowing on 31 December 2016)

The insurance amount on property plant and equipments and inventories is TL 131,999,300 and TL 170,225,000 respectively. (2016: property, plant and equipment: TL 69,362,700 TL, inventories: TL 42,684,000).

As of December 31, 2017, the Group has netted off its checks endorsed amounting to 60,012,853 Turkish lira from its liabilities (2016: 93,729,530 Turkish lira).

Operating leases

The future payments for operational leases that can not be canceled are as follows:

	2017	2016
Up to 1 year	372,000	348,000
1 - 2 years	372,000	348,000
	744,000	**696,000**

As of 31 December 2017, the Group has recorded an operating lease amounting to TL 700,000 (2016: TL 700,000) in the income statement in the consolidated balance sheet

NOTE 16 - EMPLOYEE BENEFITS

Short-term employee benefits	2017	2016
Payables to personnel	3,432,009	2,663,995
Social security premiums	2,935,556	1,464,803
Taxes and funds payable	-	675,088
	6,367,565	**4,803,886**

NOTE 16 - EMPLOYEE BENEFITS (Continued)

Short-term employee benefits	**2017**	**2016**
Provision for unused vacation	3,711,822	2,566,228
	3,711,822	**2,566,228**

Long-term employee benefits	**2017**	**2016**
Provision for employment termination benefits	2,119,647	2,082,327
	2,119,647	**2,082,327**

According to Turkish labor law, the Group is under the obligation to pay a severance payment to employees who have completed one year of service and have been terminated due to compelling reasons or have retired, have completed 25 years of service (20 for women) and earned the right to retire, have been called to military service, or have died.The amount payable consists of one month's salary limited to a maximum of TL 4,732.48 for each period of service as of 31 December 2017 (2016: TL 4,297.21). The provision for severance payment is calculated as the present value of the amount of the probable obligation the group will be required to pay to all its employees upon retirement.

The amount payable consists of one month's salary limited to a maximum of TL 4,732.48 for each period of service as of 31 December 2017 (2016: TL 4,297.21).

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

TAS 19 "Employee Benefits" requires actuarial valuation methods to be developed to estimate the Group's obligation under the defined benefit plans. The following actuarial assumptions are used in the calculation of the total liability. Actuarial loss/ (gain) are accounted in the statement of comprehensive income under revaluation reserves.:

	2017	**2016**
Inflation rate (%)	7.00	7.00
Discount rate (%)	10.80	11.00
Turnover rate to estimate the probability of retirement (%)	3.55	3.74

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. The retirement pay provision ceiling is revised semi-annually, and TL 5,001.76 which is effective from 1 January 2018, is taken into consideration in the calculation of provision for employee benefits (2016: TL 4,426.16 effective from 1 January 2017).

NOTE 16 - EMPLOYEE BENEFITS (Continued)

The movement of employee benefits is as follows:

	2017	**2016**
Balances at 1 January	**2,082,327**	**2,950,900**
Cost of interest	205,778	271,946
Cost of service	292,418	252,713
Actuarial gain	417,732	(435,904)
Payments (-)	(878,608)	(957,328)
Balances at 31 December	**2,119,647**	**2,082,327**

NOTE 17 - GOVERNMENT GRANTS

The Group were started its investment in order to expand production capacity of its plant located in Çanakkale and their incentive certificate is utilized with regard to corporate tax discount of 60% which is calculated with 20% in Turkey, together with custom and value added tax exemption.

With respect to certificate, the Group entitled to tax deduction of corporate tax amounting to TL 1,954,500 which were equal to 30% of total investment amounting to TL 6,515,000. This deduction would be utilized from income of related investment and this amount should be kept in spate book in accordance with Corporate Tax Law. If it is not eligible to keep it separately, income related to investment could be calculated by compared ratio between total investment amounts to total fixed assets.

The approvals related to abovementioned incentives were completed as at 2013 and the Group utilized from a corporate tax discount amounting to TL 283,635. The Group recognized deferred tax assets amounting to TL 1,670,865 (2016: TL 1,670,865) within the scope of this incentive. Furthermore, deferred tax assets amounting to TL 1,005,663 (2016: TL 1,005,663) were recognized within the two investments started in 2013 and not completed yet.

The Group benefits from 50% of its expenditures on foreign franchises within the scope of Turquality. These incentives were not offset in the consolidated financial statements because it is paid to aforementioned franchisees in order to cover their expenditures.

NOTE 18 – EQUITY

The shareholders and the shareholding structure of the Company as at 31 December 2017 and 2016 are as follows:

	2017		**2016**	
	TL	**Share (%)**	**TL**	**Share (%)**
Portion trading on the Istanbul Stock Exchange	104,534,884	49.99	16,500,000	7.89
Davut Doğan	16,047,503	7.68	16,047,503	7.68
Adnan Doğan	16,047,484	7.68	16,047,484	7.68
Şadan Doğan	16,047,474	7.68	16,047,474	7.68
İsmail Doğan	16,047,474	7.68	16,047,474	7.68
İlhan Doğan	16,047,474	7.68	16,047,474	7.68
Murat Doğan	16,047,474	7.68	16,047,474	7.68
Doğanlar Yatırım Holding A.Ş.	8,250,000	3.95	-	-
International Furniture B.V.	-	-	96,284,884	46.05
	209,069,767	**100.00**	**209,069,767**	**100.00**
Reverse merger capital differences	(159,069,767)		(159,069,767)	
Paid-in share capital	**50,000,000**		**50,000,000**	

As registered in the Turkish Trade Registry Gazette dated 26 June 2007 and numbered 6838, the registered capital, which is TL 80,000,000, has been increased to 209,069,768 TL in 2013.

There are 20,906,976,700 units of shares with a face value of TL 0.01. As at 31 December 2017 and 2016 paid-in share capital of the Company amounting to TL 50,000,000 with each share has a face value of TL 0.01.

As of 31 December 2017 and 2016, there are no preferred shares representing the capital.

Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. the amounts of reserves held in legal financial statements prepared in accordance with the Tax Procedure Law are as follows:

	2017	**2016**
Reserves on retained earnings	607,177	607,177
Extraordinary reserves	955,943	955,943
Share premium	282,945	282,945

As of 31 December 2017, the Company’s 9,628,488,350 shares were pledged due to the borrowings of the Group, (As of 31 December 2016, the Company’s 19,256,976,700 shares were pledged due to the borrowings of the Group.)

NOTE 19 - REVENUE AND COST OF SALES

	2017	**2016**
Domestic sales	668,634,962	443,207,627
Foreign sales	59,917,417	46,603,669
Sales returns (-)	(11,709,801)	(7,689,591)
Sales discounts (-)	(116,677,230)	(86,649,967)
Net sales	**600,165,348**	**395,471,738**
Cost of sales	(376,535,779)	(265,166,697)
Gross profit	**223,629,569**	**130,305,041**

NOTE 20 - EXPENSES BY NATURE

	2017	**2016**
Marketing expenses		
Transportation	25,332,954	17,625,337
Personnel	21,533,873	19,189,777
Advertisement	18,923,990	21,246,987
Rent	15,119,468	15,404,875
Depreciation and amortisation	12,351,638	8,904,047
Travel	1,536,060	1,352,593
Consultancy	1,528,537	796,656
Utilities	1,459,759	1,194,144
Repair and maintenance	816,504	1,227,582
Representation	141,531	1,116,665
Other	8,814,877	5,908,113
	107,559,191	**93,966,776**

General administrative expenses

Personnel	10,995,915	10,288,360
Consultancy	5,783,218	4,919,831
Depreciation and amortisation	1,527,461	1,695,047
Rent	1,358,499	1,659,561
Travel	863,779	828,616
Representation	337,474	368,338
Communication	257,192	226,734
Other	4,292,322	4,269,851
	25,415,860	**24,256,338**

NOTE 20 - EXPENSES BY NATURE (Continued)

	2017	2016
Research and development expenses		
Personnel	2,624,398	2,134,887
Depreciation and amortisation	199,403	174,956
Rent	82,729	293,569
Material	65,697	90,548
Other	587,813	528,907
	3,560,040	**3,222,867**

Functional classification of personnel and amortisation and depreciation expenses are as follows:

Personnel expenses:

Cost of sales	40,016,440	36,453,832
Marketing expenses	21,533,873	19,189,777
General administrative expenses	10,995,915	10,288,360
Research and development expenses	2,624,398	2,134,887
	75,170,626	**68,066,856**

Depreciation and amortisation:

Marketing expenses	12,351,638	8,904,047
Cost of sales	4,819,520	5,069,487
General administrative expenses	1,527,461	1,695,047
Research and development expenses	199,403	174,956
	18,898,022	**15,843,537**

NOTE 21 - OTHER OPERATING INCOME AND EXPENSES

	2017	2016
Other operating income:		
Foreign exchange gains	29,134,855	10,698,224
Interest income	8,831,825	3,422,463
Other	2,134,992	1,361,835
	40,101,672	**15,482,522**

Other operating expenses:

Foreign exchange losses	(24,489,599)	(6,456,223)
Provision expense	(1,977,569)	(586,866)
Interest expense	(7,304,190)	(10,797,696)
Other	(224,043)	(163,057)
	(33,995,401)	**(18,003,842)**

NOTE 22 - FINANCIAL INCOME AND EXPENSES

	2017	2016
Financial income		
Foreign exchange gains	37,547,671	12,541,622
Interest income	764,970	11,873
	38,312,641	**12,553,495**
Financial expenses		
Foreign exchange losses	(74,672,983)	(43,752,456)
Interest expense on borrowings	(36,309,352)	(17,828,911)
	(110,982,335)	**(61,581,367)**

NOTE 23 - TAX ASSETS AND LIABILITIES

Current income tax assets:

Turkish tax legislation does not allow for the submission of tax returns over consolidated financial statements, which include its subsidiaries, joint ventures and associates. Therefore, tax considerations reflected in consolidated financial statements have been calculated on a separate-entity basis.

The Turkish corporation tax rate for 2017 is 20% (31 December 2016: 20%). This rate is applicable to the tax base derived upon exemptions and deductions stated in the tax legislation through addition of disallowable expenses to the commercial revenues of the companies with respect to the tax legislation.

Taxes on profit for the period consist of the following:

	2017	2016
Corporate tax calculated	-	-
Prepaid taxes (-)	(205,596)	(156,475)
Current income tax assets (-)	**(205,596)**	**(156,475)**

Taxation on income in the consolidated income statements are as follows:

	2017	2016
Current period tax expense	(5,659,784)	2,460,130
	(5,659,784)	**2,460,130**

NOTE 23 - TAX ASSETS AND LIABILITIES (Continued)

Current income taxes

Turkish tax legislation does not allow for the submission of tax returns over consolidated financial statements, which include its subsidiaries. Therefore, tax considerations reflected in consolidated financial statements have been calculated on a separate-entity basis.

Corporation tax is payable at a rate of 20% on the total income of each local company after adjusting for certain disallowable expenses, exempt income and allowances

Corporation tax rate is applied to the tax base that will result in deducting expenses that are not accepted as deductible according to the tax legislation of the corporation's commercial income, deduction in the tax laws (exemption of participation profits etc.) and deductions (such as deduction). No further tax is payable if the profit is not distributed.

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

Corporations are required to declare a provisional tax of 20% on their quarterly financial profits and pay till the 10th day of the second month following that period and pay till the evening of the 17th day. The temporary tax paid during the year belongs to that year and is deducted from the Corporation tax that will be calculated on the tax declaration of the institutions to be given in the following year. If the temporary tax amount paid remains in spite of the indictment, this amount can be refunded or any other financial debt to the state can be deducted.

There is no practice to reconcile with the tax authority on the taxes payable in Turkey. The corporation tax returns are given to the tax attached until the evening of the 25th day of the fourth month following the close of the accounting period..

Authorities may review the accounting records for a period of five years retroactively and may change the tax amounts due to the tax assessment that arises if an incorrect transaction is detected.

According to Turkish tax legislation, financial losses shown on the tax return can be deducted from the period corporate income for not more than 5 years. However, financial losses cannot be deducted from retained earnings.

There are many exemptions for corporations in the Corporate Tax Law. Of these exemptions the ones that are related to the Group are detailed below:

Investment allowance regime was applied in Turkey for many years and calculated with 40% of property plant and purchases acquisitions exceeding a certain amount was abolished by Law No 5479 dated 30 March 2006. However, in accordance with the temporary article 69 of the Income Tax Law, income and corporate taxpayers can deduct following investment allowance amounts which they could not offset against 2005 gains which were present at 31 December 2005:

NOTE 23 - TAX ASSETS AND LIABILITIES (Continued)

a) Investment amounts, within the scope of addendum 1, 2, 3, 4, 5 and 6 of Income Tax Law no: 193, which were started before abolishment of aforementioned Income Tax Law by Law no: 4842 dated 9 April 2003,

b) Incentives based on investments which were calculated in accordance with the legislation as at 31 December 2005 and formed an economic and technical integrity with the investment started before 1 January 2006 within the scope of abrogated 19th article of Income Tax Law no: 193, can be deducted from income related to the years 2006, 2007 and 2008.

Deferred tax:

The Group recognises deferred income tax assets and liabilities based upon temporary differences arising between their financial statements prepared in accordance with IFRS and their statutory tax financial statements. Deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income under the liability method using an enacted tax rate.

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

	Cumulative temporary differences		**Deferred income tax assets/(liabilities)**	
	2017	**2016**	**2017**	**2016**
Deferred income tax assets:				
Carry forward tax losses	41,377,804	65,428,578	9,103,117	13,085,716
Investment incentives	13,382,640	13,382,640	2,676,528	2,676,528
Provision for doubtful receivables	8,877,125	9,037,307	1,952,968	1,807,461
Provision for unused vacation	3,711,822	2,566,228	816,601	513,246
Provision for employee benefits	2,119,647	2,082,327	423,929	416,465
Provision for warranty	5,135,261	1,502,555	1,027,052	300,511
Provision for litigation	1,462,584	887,798	292,517	177,560
Other	193,270	247,852	38,654	49,570
			16,331,366	**19,027,057**
Deferred income tax liabilities::				
Property, plant and equipment	(166,273,833)	(96,882,565)	(33,051,080)	(19,376,513)
Cut-off	(2,568,529)	(2,685,479)	(565,076)	(537,096)
			(33,616,156)	**(19,913,609)**
Deferred income tax (liabilities)/assets, net			**(17,284,790)**	**(886,552)**

NOTE 23 - TAX ASSETS AND LIABILITIES (Continued)

The reconciliation of tax expense stated in the consolidated income statements is as follows::

	2017	**2016**
Loss before taxation on income	20,916,198	(42,108,245)
Tax calculated at enacted tax rate	(4,183,240)	8,421,649
Effect of change in statutory tax rate (*)	(588,812)	-
Non-deductible expenses	(887,732)	(476,453)
Loss of rights due to tax base increase (**)	-	(5,461,068)
Other	-	(23,998)
Vergi gideri/(geliri)	**(5,659,784)**	**2,460,130**

(*) Within the scope of the "Law on the Amendment of Certain Tax Laws and Some Other Laws" numbered 7061, which was published in the Official Gazette dated December 5, 2017, the corporate tax rate for the years 2018, 2019, and 2020 has been increased from 20 percent to 22 percent. Under the Act, the deferred tax assets and liabilities in the financial statements as of December 31, 2017, the tax rate of 22 percent has been used to calculate the tax effect of temporary differences in 2018, 2019, and 2020, and 20 percent for the tax effect of temporary differences in 2021 and subsequent years.

(**) In the period 1 January – 31 December 2017, the Group utilized from tax base increase related to 31 December 2015, 2014 and 2013. Within this context, carryforward tax losses which are deductible from future taxable profits has been reversed by 50%.

Carry forward tax losses:

Deferred income tax assets are recognized for tax losses carried forward to extent that the realization of the related tax benefit through the future taxable profits is probable

As at 31 December 2017, the Group has recognised deferred income tax assets amounting to TL 9,103,117, (2016: TL 13,085,716) over the carry forward tax losses amounting to TL 41,377,804 (2016: TL 65,428,578) in consolidated financial statements.

The expiration dates of such carry forward tax losses are as follows:

	2017	**2016**
2018	-	579,703
2019	-	7,187,347
2020	186,568	16,470,292
2021	41,191,236	41,191,236
	41,377,804	**65,428,578**

NOTE 23 - TAX ASSETS AND LIABILITIES (Continued)

Movements in deferred income taxes are as follows:

	2017	2016
Balance at the beginning of the period	**(886,552)**	**654,674**
Credited to income statement	(5,659,784)	2,460,130
Charged to other comprehensive income	(10,738,454)	(4,001,356)
Balance at the end of the period	**(17,284,790)**	**(886,552)**

NOTE 24 - TRANSACTIONS AND BALANCESWITH RELATED PARTIES

a) Trade receivables and payables due from related parties as of 31 December 2017 and 2016 are as follows:

	2017	2016
Due from related parties:		
Doğtaş Germany GmbH	3,148,370	1,653,592
Doğtaş Bulgaria Eood	633,208	515,296
Doğtaş Holland B.V.	621,472	510,597
Real person shareholders	114,132	223,945
International Furniture B.V.	-	103,940
Other	98,166	189,997
	4,615,348	**3,197,367**

	2017	2016
Due to related parties:		
Doğanlar Yatırım Holding A.Ş.	11,767,210	-
Other	-	-
	11,767,210	**-**

b) Rendered of goods and services to related parties as of 31 December 2017 and 2016 are as follows:

	2017	2016
Sales and services rendered:		
Doğanlar Yatırım Holding A.Ş.	4,656,834	226,683
Doğanlar Lojistik İnş. Gıda A.Ş.	4,618,914	-
Doğtaş Germany GmbH	562,378	1,216,943
Other	97,344	82,373
	9,935,470	**1,525,999**

NOTE 24 - TRANSACTIONS AND BALANCESWITH RELATED PARTIES (Continued)

c) Purchase and of goods and services to related parties as of 31 December 2017 and 2016 are as follows:

	2017	2016
Sales and services purchased:		
Doğan Kent Elektrik Enerjisi Toptan Satış A.Ş.	2,173,699	2,874,994
Doğanlar Yatırım Holding A.Ş.	1,286,724	690,095
Other	3,052	5,521
	3,463,475	**3,570,610**

d) Key management compensation

	2017	2016
Short term compensation	4,809,794	4,947,714
	4,809,794	**4,947,714**

The Group has determined key management personnel as the chairman, members of the Board of Directors and general manager of the Company..

NOTE 25 - FINANCIAL RISK MANAGEMENT

Credit Risk

In connection with trade receivables arising from credit sales and deposits held in the banks, the Group is exposed to credit risk.

Credit risk is managed on Group and entity basis, except for credit risk relating to accounts receivable balances. Each entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

The management assesses the credit quality of its customers, taking into account financial position, past experience and other factors. The Group monitors the performance of these financial assets on a regular basis to identify incurred collection losses.

NOTE 25 - FINANCIAL RISK MANAGEMENT (Continued)

	Receivables					
	Trade		**Other**			**Derivative**
	Due from		**Due from**		**Cash and**	**financial**
Maximum exposure to credit risk for financial assets	**related parties**	**Other**	**related parties**	**Other**	**Cash equivalents**	**instruments**
Maximum exposure to credit risk as of 31 December 2017 (A+B+C+D+E)	**4,615,348**	**105,883,635**	**-**	**4,844,778**	**3,363,130**	**-**
A. Neither past due nor impaired	98,166	72,156,556	-	4,844,778	3,363,130	-
B. Restructured	-	-	-	-	-	-
C. Past due but not impaired	4,517,182	33,727,079	-	-	-	-
D. Impaired	-	-	-	-	-	-
- Past due	-	-	-	-	-	-
- Gross carrying amount	-	19,992,777	-	-	-	-
- Impairment (-)	-	(19,992,777)	-	-	-	-
- *The part of net value under guarantee with collateral*	-	-	-	-	-	-
- Not past due	-	-	-	-	-	-
- Gross carrying amount	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- *The part of net value under guarantee with collateral*	-	-	-	-	-	-
	-	-	-	-	-	
Maximum exposure to credit risk as of 31 December 2016 (A+B+C+D+E)	**3,197,367**	**77,917,009**	**-**	**3,971,252**	**737,786**	**-**
A. Neither past due nor impaired	3,197,367	58,262,360	-	3,971,252	737,786	-
B. Restructured	-	-	-	-	-	-
C. Past due but not impaired	-	19,654,649	-	-	-	-
D. Impaired	-	-	-	-	-	-
- Past due	-	-	-	-	-	-
- Gross carrying amount	-	18,594,824	-	-	-	-
- Impairment (-)	-	(18,594,824)	-	-	-	-
- *The part of net value under guarantee with collateral*	-	-	-	-	-	-
- Not past due	-	-	-	-	-	-
- Gross carrying amount		-				
- Impairment (-)	-	-	-	-	-	-
- *The part of net value under guarantee with collateral*	-	-	-	-	-	-

NOTE 25 - FINANCIAL RISK MANAGEMENT (Continued)

Aging analysis of past due but not impaired trade receivables are as follows:

	2017	**2016**
Up to 1 month	7,718,749	1,838,230
1-3 months	7,877,988	3,866,457
3-6 months	2,137,250	4,289,204
Over 180 days	20,510,274	9,660,758
	38,244,261	**19,654,649**

Liquidity Risk

Liquidity risk comprises the risks arising from the inability to fund the increase in the assets, the inability to cover the liabilities due and the operations performed in illiquid markets. In the framework of liquidity risk management, funding sources are being diversified and sufficient cash and cash equivalents are held. In order to meet instant cash necessities it is ensured that the cash and cash equivalent assets level does not fall below a predetermined portion of the short-term liabilities.

As of 31 December 2017 and 31 December 2016 the undiscounted contractual cash flows of the financial liabilities of the Group are as follows:

2017	**Demand or up to 3 months**	**3-12 month**	**1-5 years**	**Total**
Non-derivate instruments				
Borrowings	60,797,044	85,851,943	145,604,390	292,253,377
Trade payables				
Third parties	140,948,794	87,250,612	-	228,199,406
Other payables				
Related parties	282,033	1,128,134	621,894	2,032,061
Third parties	-	11,767,210	-	11,767,210
	202,027,871	**185,997,899**	**146,226,284**	**534,252,054**

2016	**Demand or up to 3 months**	**3-12 month**	**1-5 years**	**Total**
Non-derivate instruments				
Borrowings	83,496,697	66,771,803	106,147,113	256,415,613
Trade payables				
Related parties	70,349	-	-	70,349
Third parties	105,558,053	26,328,943	-	131,886,996
Other payables				
Third parties	-	975,118	906,312	1,881,430
	189,125,099	**94,075,864**	**107,053,425**	**390,254,388**

NOTE 25 - FINANCIAL RISK MANAGEMENT (Continued)

Interest Rate Risk

The Group manages its interest rate risk by applying risk management strategies whereby its strives to balance off the dates of changes in interest rates related to assets and liabilities.

Interest rate positions are as follows:

	2017	**2016**
<u>Financial instruments with fixed interest rates</u>		
Financial liabilities	119,773,354	51,872,854
<u>Financial instruments with floating interest rates</u>		
Financial liabilities	129,334,350	174,970,388

Foreign Exchange Risk

As the functional currency of the Group is TL, the Group monitors its foreign exchange risk by analysing the foreign currency denominated (mainly USD and EUR) assets and liabilities. The Group defines the foreign currency risk as the mismatch between foreign currency denominated assets and liabilities.

Foreign currency denominated assets and liabilities as of 31 December 2017 and 2016 is set out in the table below:

	2017	**2016**
USD	3.7719	3.5192
EUR	4.5155	3.7099

The Group is exposed to currency risk in USD and EUR.

Foreign currency position

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

	2017	**2016**
Assets	38,638,737	28,717,457
Liabilities	(181,719,143)	(146,140,794)
Net foreign currency position	**(143,080,406)**	**(117,423,337)**

NOTE 25 - FINANCIAL RISK MANAGEMENT (Continued)

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

	31 December 2017	**Foreign currency position TL equivalent (functional currency)**	**USD**	**EUR**	**Other**
1.	Trade receivables	38,621,879	1,973,989	6,904,261	-
2a.	Monetary financial assets, (cash and banks account included)	16,858	1,030	2,873	-
2b.	Non-Monetary financial assets	-	-	-	-
3.	Other	-	-	-	-
4.	**Current assets (1+2+3)**	**38,638,737**	**1,975,019**	**6,907,134**	**-**
5.	Trade receivables	-	-	-	-
6a.	Monetary financial assets	-	-	-	-
6b.	Non-Monetary financial assets	-	-	-	-
7.	Other	-	-	-	-
8.	**Non-Current Assets (5+6+7)**	**-**	**-**	**-**	**-**
9.	**Total asset (4+8)**	**38,638,737**	**1,975,019**	**6,907,134**	**-**
10.	Trade payables	(11,028,784)	-	(2,442,428)	-
11.	Financial liabilities	(81,932,430)	-	(18,144,708)	-
12a.	Other monetary liabilities	-	-	-	-
12b.	Other non-monetary liabilities	-	-	-	-
13.	**Current Liabilities (10+11+12)**	**(92,961,214)**	**-**	**(20,587,136)**	**-**
14.	Trade payables	-	-	-	-
15.	Financial Liabilities	(88,757,929)		(19,656,279)	-
16a.	Other monetary liabilities	-	-	-	-
16b.	Other non-monetary liabilities	-	-	-	-
17.	**Non-current liabilities (14+15+16)**	**(88,757,929)**	**-**	**(19,656,279)**	**-**
18.	**Total liabilities (13+17)**	**(181,719,143)**	**-**	**(40,243,415)**	**-**
19.	Net assets of off balance sheet derivative items (liability) position (19a-19b)	-	-	-	-
19a.	Total amount of assets hedged	-	-	-	-
19b.	Total amount of liabilities hedged	-	-	-	-
20.	**Net foreign assets / (liability) position (9+18+19)**	**(143,080,406)**	**1,975,019**	**(33,336,281)**	**-**
21.	**Net foreign currency asset / (liability) /(position of monetary items (=1+2a+3+5+6a+10+11+12a+14+15+16a)**	**(143,080,406)**	**1,975,019**	**(33,336,281)**	**-**
22.	Fair value of derivative instruments used in foreign currency hedge	-	-	-	-
23.	Export	57,137,288	5,766,344	7,836,832	-
24.	Import	18,085,036	869,207	3,279,033	-

NOTE 25 - FINANCIAL RISK MANAGEMENT (Continued)

31 December 2016		**Foreign currency position TL equivalent (functional currency)**	**USD**	**EUR**	**Other**
1.	Trade receivables	28.699.767	1.516.181	6.297.750	-
2a.	Monetary financial assets, (cash and banks account included)	17.690	1.061	3.761	-
2b.	Non-Monetary financial assets	-	-	-	-
3.	Other	-	-	-	-
4.	**Current assets (1+2+3)**	**28.717.457**	**1.517.242**	**6.301.511**	**-**
5.	Trade receivables	-	-	-	-
6a.	Monetary financial assets	-	-	-	-
6b.	Non-Monetary financial assets	-	-	-	-
7.	Other	-	-	-	-
8.	**Non-Current Assets (5+6+7)**	**-**	**-**	**-**	**-**
9.	**Total asset (4+8)**	**28.717.457**	**1.517.242**	**6.301.511**	**-**
10.	Trade payables	(718.608)	-	(193.700)	-
11.	Financial liabilities	(56.925.965)	-	(15.344.339)	-
12a.	Other monetary liabilities	(4.233.916)	-	(1.141.248)	-
12b.	Other non-monetary liabilities	-	-	-	-
13.	**Current Liabilities (10+11+12)**	**(61.878.489)**	**-**	**(16.679.287)**	**-**
14.	Trade payables	-	-	-	-
15.	Financial Liabilities	(88.496.221)		(23.854.072)	
16a.	Other monetary liabilities	-	-	-	-
16b.	Other non-monetary liabilities	-	-	-	-
17.	**Non-current liabilities (14+15+16)**	**(88.496.221)**	**-**	**(23.854.072)**	**-**
18.	**Total liabilities (13+17)**	**(150.374.710)**	**-**	**(40.533.359)**	**-**
19.	Net assets of off balance sheet derivative items (liability) position (19a-19b)	-	-	-	-
19a.	Total amount of assets hedged	-	-	-	-
19b.	Total amount of liabilities hedged	-	-	-	-
20.	**Net foreign assets / (liability) position (9+18+19)**	**(121.657.253)**	**1.517.242**	**(34.231.848)**	**-**
21.	**Net foreign currency asset / (liability) /(position of monetary items (=1+2a+3+5+6a+10+11+12a+14+15+16a)**	**(121.657.253)**	**1.517.242**	**(34.231.848)**	**-**
22.	Fair value of derivative instruments used in foreign currency hedge	-	-	-	-
23.	Export	37,353,252	2,833,513	7,380,671	-
24.	İmport	9,636,139	501,823	2,121,384	-

NOTE 25 - FINANCIAL RISK MANAGEMENT (Continued)

As of 31 December 2017, if USD had appreciated/depreciated by 10% against TL, with all other variables held constant, loss before taxation on income would have been TL 744,957 lower/ higher, mainly as a result of foreign exchange losses/gains on the translation of the foreign currency position. (2016: TL 533,948)

As of 31 December 2017, if EUR had appreciated/depreciated by 10% against TL, with all other variables held constant, loss before taxation on income would have been TL 15,052,998 lower/ higher, mainly as a result of foreign exchange losses/gains on the translation of the foreign currency position. (2016: TL 12,699,673)

Capital risk management

In capital management, the Group aims to enable continuity of the Group's operations and to maintain the most suitable capital structure so as to provide earnings to its partners and benefits to other shareholders and to decrease capital cost.

In order to maintain or re-arrange the capital structure, the Group may change the amount of dividends paid to shareholders, return the capital to shareholders, issue new shares, and sell its assets in order to decrease the level of its borrowings.

As of 31 December 2017 and 2016, the net debt, calculated by deducting the cash and cash equivalents from the total financial debts, dividing to total equity founded by financial debt equity ratio is as bellows:

	2017	**2016**
Financial debt	255,094,961	228,942,512
Cash and cash equivalents	(3,363,130)	(737,786)
Net financial debt	251,731,831	228,204,726
Total equity	89,190,222	25,912,397
Total capital	**340,922,053**	**254,117,123**
Total equity/net financial debt ratio (%)	**74**	**90**

NOTE 26 - FINANCIAL INSTRUMENTS ADDITIONAL DISCLOSURES

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

NOTE 26 - FINANCIAL INSTRUMENTS ADDITIONAL DISCLOSURES

Fair value of financial instruments

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

Financial assets - Due to their short-term nature and being subject to insignificant credit risk, it is considered that they are close to the fair values of cash and cash equivalents and the carrying values of accrued interest and other financial assets. The carrying amount of trade receivables is considered to approximate their fair value when the provision for doubtful receivables is deducted.

Financial liabilities - Trade payables and other monetary liabilities are considered to approximate their carrying values due to their short-term nature. Bank loans are stated at amortised cost and transaction costs are added to the initial cost of the loans. Long-term Euro bank loans are considered to be worthy of their fair value because their interest rates have been updated to reflect changing market conditions. Short term fixed rate TL loans are assumed to reflect fair value because their maturity is short.

NOTE 27 - ADDITIONAL DISCLOSURES THAT ARE NOT REQUIRED UNDER TAS

EBITDA, are not defined by TAS. These items determined by the principles defined by the Group management comprises incomes/expenses which are assumed by the Group management that are not part of the normal course of business and are non-recurring items. These items which are not defined by TAS are disclosed by the Group management separately for a better understanding and measurement of the sustainable performance of the Group.

	2017	**2016**
Net loss / profit for the period	15,256,414	(39,648,115)
Tax	5,659,784	(2,460,130)
Financial income	(38,312,641)	(12,553,495)
Financial expense	110,982,335	61,581,367
Amortisation	18,898,022	15,843,537
Provision for employee benefit	498,196	524,659
Provision for unused vacation	1,145,594	(361,280)
EBITDA	**114,127,704**	**22,926,543**

NOTE 28 - EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit or loss attributable to equity holders of the Company by the weighted average of the number of shares of common stock outstanding during the fiscal year excluding the ownership interest in the equity shares issued and repurchased by the shareholders of equity shares issued during the year:

	2017	**2016**
Net income or loss attributable to the owners of the parent	15,256,414	(39,648,115)
Weighted average number of shares in issue	20,906,976,700	20,552,245,211
Earning/(loss) per share	**0.0007**	**(0.0019)**

NOTE 29 - EVENTS AFTER THE BALANCE SHEET DATE

The Group has applied to the Capital Markets Board (CMB) to issue debt instruments amounting up to 200 million Turkish lira on February 1, 2018, and an amount of 67 million Turkish lira was approved by the CMB on February 22, 2018.

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