Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. and Its Subsidiaries

Convenience Translation into English
of the Consolidated Financial Statements
As at and for the Year Ended
31 December 2019
With Independent Auditor's Report

(Originally issued in Turkish)

10 March 2020

This report includes 6 pages of Independent Auditor's Report and 70 pages of consolidated financial statements and explanatory notes on the consolidated financial statements.

Independent Auditor's Report

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

A) Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the consolidated financial statements of Doğtaş Kelebek Mobilya Sanayi ve Ticaret Anonim Şirketi ("the Company") and its subsidiaries (together will be referred to as "the Group"), which comprise the statement of consolidated financial position as at 31 December 2019, the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the first and second matters and effect of third matter in *"Basis for the Qualified Opinion"*, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Turkish Financial Reporting Standards ("TFRSs").

Basis For Qualified Opinion

As explained in Note 22 to the accompanying consolidated financial statements, the consolidated statement of financial position as at 31 December 2019 consists of trade receivables from third parties amounting to TL 33,885,429 which were occurred as a result of the Group's operations and their due dates considerably exceeded 180 days and over. Furthermore, the Group management has recognized foreign exchange gain amounting to TL 2,418,182 in other operating income for the period 1 January - 31 December 2019, due to the translation of foreign currency denominated trade receivables to TL, which their due dates considerably exceeded 180 days and over. We were unable to perform sufficient audit procedures on which to determine whether there is any impairment of such balances. As a result, we were unable to determine whether adjustments were necessary in respect of the recoverability of this amount.

As at 31 December 2019 the Group has non-moving inventory in the consolidated statement of financial position amounting to TL 27,293,705 representing returns from its 2017 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 TL 9,469,958, accounted for at cost as per TFRS 9 "Financial Instruments " in the financial statements as at 31 December 2019, 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 statement of financial position as at 1 January 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 TL 9,469,958.

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

Regarding Business Continuity

The Group's shareholders' equity for the accounting period which ended on December 31, 2019, was 11,988,892 Turkish lira. Please see Footnote 2.6 for the Group's statement on business continuity. Based on these explanations, we conclude that there is no significant uncertainty that could create a serious doubt about the Group's ability to maintain continuity. This does not affect our opinion.

Key Audit Matters

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

Controlling Opening Balances

The key audit matter	**How the matter was addressed in our audit**
The first year's audits contain different issues compared to the repeating audits. Accordingly, additional planning and assessments should be carried out to create an appropriate audit strategy and audit plan. These are mainly; - Determining audit risks by obtaining sufficient information about the Group's business, control environment and information systems, and creating the audit plan accordingly, - Obtaining sufficient audit evidence on opening balances, checking the conformity and accuracy of accounting policies, communicating with the previous auditor and conducting file review, - Contacting previous auditors.	Our audit procedures in this field include: A transition plan was created before the Group's December 31, 2019 audit. This transition plan includes; - Communicating with the previous auditor to review files and discuss important audit and accounting issues; and specify the discrepancies that were identified during the audit but have not been fixed, - Holding meetings with company managers as the audit team, - Holding periodic meetings with the management team to better understand the risks, internal controls and important findings - Participating in closing meetings with the previous auditor, both face-to-face and via teleconference; discussing the inspection findings of the opening balances and the necessary corrections in the financial statements of the previous period; requesting the necessary corrections from the Company Management and monitoring their progress

Revenue recognition

Refer to Note 2.5 to the consolidated financial statements for summary of significant accounting policies and significant accounting assessments, estimates and assumptions for revenue recognition and first time application of TFRS 15.

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The key audit matter

The Group's revenue is primarily generated from sale of furniture products.

Revenue is recognized when the control of the products sold is transferred to the customers and the performance obligation is fulfilled.

Recognition of revenue for the accounting period in which the product is sold depends on an appropriate assessment of whether the product is associated with a sales contract.

Recognition of revenue is designated as a key audit matter, since significant contractual obligations are required to be reflected in the financial statements in the period of the revenue recognized due to the complexity of the conditions in the commercial contracts

TFRS 15 creates a comprehensive framework determining when and how much revenue will be recognized regarding the transfer of the control over products and services to the buyer based on the timing of the vendor performing their obligations, and therefore it requires significant management forecasting and reasoning.

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How the matter was addressed in our audit

We have performed the following audit procedures to be responsive to this area:

- Evaluation of the effectiveness of key internal controls for accounting of revenue in the consolidated financial statements.
- Examination of transfer of risk and rewards through sales documents obtained for selected sample sales transactions and evaluation of appropriateness of revenue recognition in the appropriate financial reporting period in accordance with TFRS 15.
- Evaluating the timing of revenue recognition for the different shipment arrangements by examining the terms of trade and shipping conditions in the contracts made with customers.
- Verifying trade receivable balances of third parties by obtaining confirmation letters for selected samples and reconciling to the financial statements.
- Performing analytical procedures to determine the existence of unusual transactions.
- Testing of the subsequent sales returns transactions after the reporting period of financial statements whether they are accounted for in the appropriate financial reporting period by selecting the samples from subsequent sales returns after the reporting period and using substantive testing procedures.
- Evaluation of the journal entries that the Group has accounted for during the year.

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Accounting of Financial Liabilities

Please see Footnote 4 for details on accounting policies related to accounting of Financial Liabilities and the important accounting estimates and assumptions.

The key audit matter	**How the matter was addressed in our audit**
The Group's consolidated financial statements include a total of 450,472,117 Turkish lira in financial liabilities in the short and long term, constituting a significant portion of the Group's liability. The Group presents its financial liabilities through the discounted cost using the effective interest method. The Group has defined the calculation and agreement regarding discounted costs of financial liabilities as a key audit subject.	Our audit procedures are designed to question the accuracy of financial liabilities. The Group's financial debt balances have been validated. The internal efficiency rates and discounts of financial liabilities calculated by the Group were re-calculated and tested. The explanations in the consolidated financial statement notes regarding financial liabilities were examined and the sufficiency of the information contained in these notes was assessed.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2018, were audited by another auditor who expressed an qualified opinion regarding to impairment of trade receivables aged over 180 days, impairment of non-moving inventory items nad impairment on financial investments measured in its cost value on 11 March 2019.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B) Other Legal and Regulatory Requirements

1) Pursuant to the fourth paragraph of Article 398 of Turkish Commercial Code (“TCC”) no. 6102; Auditors’ Report on System and Committee of Early Identification of Risks is presented to the Board of Directors of the Group on 10 March 2020.

2) Pursuant to the fourth paragraph of Article 402 of the TCC; no significant matter has come to our attention that causes us to believe that for the period 1 January - 31 December 2019, the Group’s bookkeeping activities and consolidated financial statements are not in compliance with TCC and provisions of the Group’s articles of association in relation to financial reporting.

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

GÜRELİ YEMİNLİ MALİ MÜŞAVİRLİK VE BAĞIMSIZ DENETİM HİZMETLERİ A.Ş.
An Independent Member of BAKER TILLY INTERNATIONAL

İstanbul, 10 March 2020
Metin Etkin
Partner

INDEX		PAGE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION		**1-2**
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME		**3-4**
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY		**5**
CONSOLIDATED STATEMENT OF CASH FLOWS		**6**
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS		**7-70**
NOTE 1	Organisation and nature of operations of the group	7
NOTE 2	Basis of presentation of consolidated financial statements	9
NOTE 3	Cash and cash equivalents	35
NOTE 4	Borrowings	36
NOTE 5	Trade receivables and trade payables	38
NOTE 6	Due from and due to related parties	39
NOTE 7	Other receivables and other payables	41
NOTE 8	Inventories	42
NOTE 9	Other assets	42
NOTE 10	Prepaid expenses and deferred income	42
NOTE 11	Financial investments	43
NOTE 12	Property, plant and equipment, and right-of-use assets	44
NOTE 13	Intangible assets	47
NOTE 14	Provisions, commitments, contingent assets and liabilities	48
NOTE 15	Employee benefits	50
NOTE 16	Capital, reserves and other equities	51
NOTE 17	Revenue and cost of sales	54
NOTE 18	Expenses by nature	55
NOTE 19	Operating income and expenses	57
NOTE 20	Income /expenses from investing activities	57
NOTE 21	Financial income and expenses	58
NOTE 22	Tax assets and liabilities	58
NOTE 23	Financial risk management	61
NOTE 24	Additional disclosures that are required under TFRS	69
NOTE 25	Earnings / (loss) per share	70
NOTE 26	Events after the reporting period	70

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş. and ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated**.)**

		Audited	**Audited (Reclassified)**
Assets	***Notes***	**31 December 2019**	**31 December 2018**
Current Assets		**434,224,410**	**354,119,357**
Cash and cash equivalents	*3*	4,862,454	3,566,888
Trade receivables	*5*	146,390,726	95,915,273
- Trade receivables from related parties	*6*	*1,573,217*	*1,110,954*
- Trade receivables from third parties	*5*	*144,817,509*	*94,804,319*
Other receivables	*7*	8,283,318	2,872,979
- Other receivables from third parties		*8,283,318*	*2,872,979*
Inventories	*8*	241,944,621	212,208,688
Prepayments	*10*	27,427,524	31,668,883
Current tax assets	*21*	684,941	654,410
Other current assets	*9*	4,630,826	6,741,036
		434,224,410	**353,628,157**
Assets held for sale		--	491,200
Non-current assets		**343,171,241**	**283,263,188**
Other receivables	*7*	1,916,530	2,461,967
- Other receivables from third parties	*7*	*1,916,530*	*2,461,967*
Financial investments	*11*	9,469,958	9,469,958
Investment properties		--	25,214
Property, plant and equipment	*12*	258,514,240	249,063,153
Right-of-Use Assets	*12*	40,424,299	--
Intangible assets	*13*	20,630,756	22,242,896
Deferred Tax Assets	*21*	12,215,458	--
Total Assets		**777,395,651**	**637,382,545**

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

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş. and ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated**.)**

Liabilities	***Notes***	**Audited 31 December 2019**	**Audited (Reclassified) 31 December 2018**
Current Liabilities		**509,144,675**	**470,311,426**
Short-term borrowings	*4*	55,005,861	94,575,077
Short-term portion of long term borrowings	*4*	146,764,530	119,879,404
Trade payables	*5*	159,619,471	139,747,411
- Trade payables to third parties		*159,619,471*	*139,747,411*
Payables related to employee benefits	*15*	8,426,569	6,160,527
Other payables	*7*	41,654,831	56,950,450
- Other payables to third parties	*7*	*450,656*	*1,143,164*
- Other payables to related parties	*6*	*41,204,175*	*56,726,999*
Deferred revenue	*10*	84,202,725	42,094,258
Short-term provisions		13,416,161	10,693,468
- Short-term employee benefits	*15*	*4,606,796*	*3,800,626*
- Other short-term provisions	*14*	*8,809,365*	*6,892,842*
Other current liabilities		54,527	210,831
Non-current Liabilities		**256,262,084**	**170,759,079**
Long-term borrowings	*4*	248,701,726	161,800,015
Other payables		2,810,297	711,204
- Other payables to third parties		*2,810,297*	*711,204*
Deferred revenue		--	--
Long-term provisions		4,750,061	4,455,132
- Long-term employee benefits	*15*	*3,500,601*	*2,531,099*
- Other long-term provisions	*14*	*1,249,460*	*1,924,033*
Deferred tax liabilities	*22*	--	3,792,728
Equity		**11,988,892**	**(3,687,960)**
Equity attributable to owners of the company			
Share capital	*16*	269,069,767	209,069,767
Reverse merger capital differences	*16*	(159,069,767)	(159,069,767)
Share premiums	*16*	9,282,945	282,945
Treasury share (-)		(510,991)	(510,991)
Other comprehensive income / (expense) not to be reclassified to profit or loss		138,996,492	116,690,771
- Increase on revaluation of property and equipment	*16*	*138,766,128*	*115,492,865*
- Actuarial gain arising from employee benefits	*16*	*230,364*	*1,197,906*
Items that will be reclassified to profit or loss	*16*	(10,370,082)	--
- Hedging Gains/Losses	*16*	(10,370,082)	--
Legal reserves	*16*	1,107,177	1,107,177
Accumulated losses		(171,257,862)	(82,038,854)
Profit/ (loss) for the period		(65,258,787)	(89,219,008)
Total Liabilities and Equity		**777,395,651**	**637,382,545**

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

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş. and ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME AS AT 31 DECEMBER 2019
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

Profit or loss	***Notes***	**Audited** **1 January - 31 December 2019**	**Audited (Reclassified)** **1 January - 31 December 2018**
Revenue	*17*	602,401,733	591,311,311
Cost of sales (-)	*17*	(416,280,757)	(420,347,269)
Gross profit		**186,120,976**	**170,964,042**
General administrative expenses (-)	*18*	(27,634,345)	(28,577,264)
Selling, marketing and distribution expenses (-)	*18*	(127,715,532)	(130,216,024)
Research and development expenses (-)	*18*	(4,614,222)	(2,857,259)
Other income from operating income	*19*	81,691,085	106,500,210
Other expense from operating expenses (-)	*19*	(78,487,469)	(98,551,963)
Operating profit		**29,360,493**	**17,261,742**
Income from investing activities	*20*	--	566,628
Expenses from investing activities	*20*	(716,547)	--
Operating profit before financial expense		**28,643,946**	**17,828,370**
Finance income	*21*	64,030,314	127,494,408
Finance expenses (-)	*21*	(175,594,634)	(247,153,550)
Profit/ (loss) before tax		**(82,920,374)**	**(101,830,772)**
Taxation on income			
- Deferred tax benefit /(expense)	*22*	17,661,587	12,611,764
Profit/ (Loss) for the period		**(65,258,787)**	**(89,219,008)**
Earnings/(Losses) per share		(0.0025)	(0.0043)
Diluted earnings / (losses)per share		(0.0025)	(0.0043)

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

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş. and ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME AS AT 31 DECEMBER 2019
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	**Audited** **1 January – 31 December 2019**	**Audited** **1 January – 31 December 2018**
Profit / (Loss) for the period		**(65,258,787)**	**(89,219,008)**
Other comprehensive income or expense			
Items that will not be reclassified to profit or loss		**22,305,721**	**(335,470)**
Revaluation reserves	*12*	28,093,444	--
Defined benefit plans remeasurement fund	*15*	(1,209,427)	(419,338)
Deferred tax benefit or expenses that will not be reclassified to profit or loss	*22*	(4,578,296)	83,868
Items that will be reclassified to profit or loss		**(10,370,082)**	**--**
Hedging Gains/Losses		(13,294,977)	--
Deferred tax benefit or expenses that will be reclassified to profit or loss		2,924,895	--
Other comprehensive income, after tax		**11,935,639**	**(335,470)**
Total comprehensive income / (expense)		**(53,323,148)**	**(89,554,478)**

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

DOĞTAŞ KELEBEK MOBİLYA SANAYİ VE TİCARET A.Ş. and ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

				Other comprehensive income that will not be reclassified to profit or loss		Other comprehensive income that will be reclassified to profit or loss		Accumulated profit / losses		
	Share capital	**Share premiums**	**Treasury shares**	**Remeasurement differences**	**Revaluation reserves**	**Hedging Gains/Losses**	**Legal reserves**	**Accumulated Losses**	**Net profit / (loss) for the period**	**Total equity**
Balance at 1 January 2018	**50,000,000**	**282,945**	**(10,991)**	**1,533,376**	**115,492,865**	**--**	**607,177**	**(93,971,564)**	**15,256,414**	**89,190,222**
Adjustments regarding changes in accounting policies (Footnote 2.2)	--	--	--	--	--	--	--	(2,823,704)	--	(2,823,704)
Readjusted at the beginning of the period	**50,000,000**	**282,945**	**(10,991)**	**1,533,376**	**115,492,865**	**--**	**607,177**	**(96,795,268)**	**15,256,414**	**86,366,518**
Transfers	--	--	--	--	--	--	--	15,256,414	(15,256,414)	--
Increase / decrease due to redemption of shares	--	--	(500,000)	--	--	--	500,000	(500,000)	--	(500,000)
Total comprehensive income	--	--	--	(335,470)	--	--	--	--	(89,219,008)	(89,554,478)
Balance at 31 December 2018	**50,000,000**	**282,945**	**(510,991)**	**1,197,906**	**115,492,865**	**--**	**1,107,177**	**(82,038,854)**	**(89,219,008)**	**(3,687,960)**
Balance at 1 January 2019	**50,000,000**	**282,945**	**(510,991)**	**1,197,906**	**115,492,865**	**--**	**1,107,177**	**(82,038,854)**	**(89,219,008)**	**(3,687,960)**
Transfers	--	--	--	--	--	--	--	(89,219,008)	89,219,008	--
Increase / decrease due to redemption of shares	--	--	--	--	--	--	--	--	--	--
Capital Increase	60,000,000	9,000,000	--	--	--	--	--	--	--	69,000,000
Total comprehensive income				(967,542)	23,273,263	(10,370,082)	--	--	(65,258,787)	(53,323,148)
Balance at 31 December 2019	**110,000,000**	**9,282,945**	**(510,991)**	**230,364**	**138,766,128**	**(10,370,082)**	**1,107,177**	**(171,257,862)**	**(65,258,787)**	**11,988,892**

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

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

	Notes	**Audited 1 January - 31 December 2019**	**Audited 1 January - 31 December 2018**
A. Cash outflows for operating activities		**42,717,746**	**(43,884,653)**
Profit/ (loss) for the period		**(65,258,787)**	**(89,219,008)**
Adjustments to reconcile net profit/ (loss) for the period		**138,695,759**	**120,039,079**
Adjustments related to amortisation and depreciation	*18*	41,782,192	22,803,829
Adjustments related to provision for (reversal) of doubtful receivables	*5*	3,722,303	883,244
Adjustments related to provision for (reversal) of doubtful receivables		*3,722,303*	*883,244*
Adjustments related to provision for employment termination benefits	*15*	1,592,641	589,918
Adjustments related to provision for warranty	*14*	(674,573)	2,227,520
Adjustments related to reversal other provisions		1,760,219	651,658
Adjustments related to tax benefit/(expenses)	*21*	(17,661,587)	(12,611,764)
Adjustments related to interest income/ (expenses)	*20*	85,021,375	66,412,441
Adjustments related to interest expenses	*20*	*85,060,578*	*66,478,408*
Adjustments related to interest income	*20*	*(39,203)*	*(65,967)*
Deferred financial expense from credit purchases		8,873,193	--
Adjustments related to (gain)/loss disposal of tangible and intangible assets		363,346	(561,748)
Adjustments related to unrealized currency translation difference		26,003,453	39,643,981
Adjustments for fair value losses (gains) of non-current assets for sale		491,200	--
Hedging Gains/Losses Corrections		(13,294,977)	--
Adjustments for losses (gains) from disposal of non-current assets		716,974	--
Adjustments for losses (gains) from disposal of property, plant and equipment (PPE)		*716,547*	--
Adjustments for losses (gains) from disposal of real estate for investment purposes		*427*	--
Changes in working capital		**(29,368,279)**	**(72,684,628)**
Decrease/(increase) in trade receivables		(63,070,950)	8,974,190
Decrease (Increase) in Trade Receivables from Related Parties	*5*	*(462,263)*	*8,974,190*
Decrease (Increase) in Trade Receivables from Unrelated Parties		*(62,608,686)*	--
Decrease/(increase) in other receivables related with operations		(4,864,902)	731,714
Increase in inventories	*8*	(29,735,933)	(24,488,446)
Decrease/(increase) in prepaid expenses	*10*	4,241,359	20,186,765
Decrease in trade payables		19,833,265	(88,451,995)
Increase in payables for employment termination		3,185,755	(1,126,751)
Decrease/(increase) in other liabilities related with operations		1,406,584	(89,764)
Decrease (Increase) in Other Operating Payables Due to Non-Related Parties		*1,406,584*	--
Decrease/(increase) in other current assets related with operations		(2,471,925)	6,861,489
Increase in deferred revenue		42,108,467	4,718,170
Cash outflows for operations		**(1,350,947)**	**(2,020,096)**
Payments for provisions related to employee benefits	*15*	(1,026,396)	(597,804)
Payments for other provisions	*14*	(324,551)	(973,478)
Taxes paid		--	(448,814)
B. Cash outflows from investing activities		**(18,362,716)**	**(15,908,524)**
Interest received	*20*	-	65,967
Cash outflows from purchases of tangible and intangible assets	*12,13*	(19,667,177)	(20,075,449)
Purchase of Plant, Property and Equipment		*(18,407,799)*	*(20,075,449)*
Purchase of Intangible Assets		*(1,259,378)*	--
Cash inflows from sales of tangible and intangible assets		1,279,246	4,100,958
Proceeds from sale of real estate for investment purposes		25,215	--
C. Cash outflows from financing activities		**(23,059,464)**	**59,996,935**
Interest paid		(62,763,326)	(56,297,641)
Cash inflows from bank borrowings	*4*	955,432,118	234,132,264
Cash outflows due to the payments of bank borrowings	*4*	(969,205,432)	(162,797,477)
Cash from Capital Increase		60,000,000	--
Cash from Share Premiums		9,000,000	--
Proceeds from related parties		(15,522,824)	44,959,789
Net increase/(decrease) in cash and cash equivalents (A+B+C)		**1,295,566**	**203,758**
D. Cash and cash equivalents at the beginning of the period	*3*	**3,566,888**	**3,363,130**
Cash and cash equivalents at the end of the period (A+B+C+D)	*3*	**4,862,454**	**3,566,888**

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

1. ORGANISATION AND NATURE OF OPERATIONS OF THE GROUP

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.

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.

The main operating segment is production and sale of furnitures.

The address of the registered office is İdealtepe Mahallesi Rıfkı Tongsir Caddesi No:107/ Küçükyalı, Maltepe/İSTANBUL.

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.

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 2019, 46.80 % of its shares are open for trading. (31 December 2018 : %49,99).

Subsidiaries

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 at 31 December 2019 (31 December 2018: None).

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

1. ORGANISATION AND NATURE OF OPERATIONS OF THE GROUP (continued)

The shareholding structure of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. as at 31 December 2019 and 31 December 2018 is as follows:

				Proportion of effective interest of the Company(%)	
Subsidiaries	**Registered Country**	**Nature of operation**	**Functional currency**	**31 December 2019**	**31 December 2018**
Doğtaş Mobilya Pazarlama Ticaret A.Ş. ("Doğtaş Pazarlama")	Turkey	Sales and marketing of furniture	TL	100	100
Doğtaş Bulgaria Eood ("Doğtaş Bulgaria")	Bulgaria	Sales and marketing of furniture	Leva	100	100
Doğtaş Holland B.V. ("Doğtaş Holland")	Nederland	Sales and marketing of furniture	EUR	100	100
Doğtaş Germany GmbH ("Doğtaş Germany")	Germany	Sales and marketing of furniture	EUR	100	100
2K Oturma Grupları İnşaat ve Taahhüt San. ve Tic. A.Ş. ("2K")	Turkey	Sales of sitting group	TL	100	100
3K Mobilya Dekor. San. ve Tic. A.Ş. ("3K")	Turkey	Furniture decoration	TL	100	100

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 at 31 December 2019, the number of employees of the Company and its subsidiaries (collectively referred to as the "Group") is 1,330 (31 December 2018: 1,275).

The shareholding structure of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. as at 31 December 2019 and 31 December 2018 is as follows:

	31 December 2019		**31 December 2018**	
	%	**TL**	**%**	**TL**
Portion trading on Borsa Istanbul	46,80	125.927.492	49,99	104.534.884
Davut Doğan	5,96	16.047.503	7,68	16.047.503
Adnan Doğan	5,96	16.047.484	7,68	16.047.484
Şadan Doğan	5,96	16.047.474	7,68	16.047.474
İsmail Doğan	5,96	16.047.474	7,68	16.047.474
İlhan Doğan	5,96	16.047.474	7,68	16.047.474
Murat Doğan	5,96	16.047.474	7,68	16.047.474
Doğanlar Yatırım Holding A.Ş.	17,41	46.857.392	3,95	8.250.000
	100,00	**269.069.767**	**100,00**	**209.069.767**

As at 31 December 2019 and 31 December 2018, the paid-in share capital of the Company is TL 269,069,767. 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.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The principle accounting policies which applied in preparing the consolidated financial statements of the Group are as follows:

2.1 Basis of presentation of consolidated financial statements

a) Statement of compliance with Turkish Financial Reporting Standards ("TFRS")

The accompanying consolidated financial statements are prepared in accordance with the requirements of Capital Markets Board ("CMB") Communiqué Serial II, No: 14.1 "Basis of Financial Reporting in Capital Markets", which were published in the Official Gazette No:28676 on 13 June 2013. The accompanying consolidated financial statements are prepared based on the Turkish Accounting Standards and interpretations ("TAS") that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority ("POA") under Article 5 of the Communiqué.

Consolidated financial statements are presented in accordance with the illustrative financial statements published by CMB and TAS Taxanomy published by POA.

The Company and its Turkish subsidiaries maintain their books of account and prepare their statutory financial statements in accordance with accounting principles in the Turkish Commercial Code ("TCC") and tax legislation. Subsidiaries that are registered in foreign countries maintain their books of account and prepare their statutory statements in accordance with the prevailing accounting principles in their registered countries.

The Group started implementing the Turkish Financial Reporting Standards (TFRS) 16 Leases Standard on January 1, 2019. For the leases previously classified as operating leases under the Turkish Accounting Standards (TAS) 17, it has recognized a right-of-use asset in the summary consolidated financial statements based on an amount equal to the lease liability corrected for the amount of all prepaid or accrued lease payments as of January 1, 2019.

<u>Approval of Consolidated Financial Statements</u>

These consolidated financial statements has been approved by the Board of Directors and signed by the Chairman and General Manager Davut Doğan and Financial Affairs Director Tarık Aksoy on behalf of the Board of Directors on 10 March 2020. The General Assemby and the relevant regulatory authorities have right to amend the consolidated financial statements. The related regulatory authorities are authorized to request amendments to these consolidated financial statements.

b) Measurement Basis

The consolidated financial statement is prepared by historical cost method except for land, land improvements, buildings, machinery, plant and equipment and investment property. The historical cost is usually based on the fair value of the cost of goods.

c) Preparation of financial statements in hyperinflationary period

In accordance with a decision taken by CMB numbered 11/367 on 17 March 2005, it has announced that inflation accounting is not effective for the entities operating in Turkey and preparing their financial statements in accordance with the TAS starting from 1 January 2005. Therefore, TAS 29 "Financial Reporting in Hyperinflationary Economies" has not been applied since 1 January 2005.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.1 Basis of presentation of consolidated financial statements (continued)

d) Comparative Information and Restatement of prior periods' financial statements

The Group's consolidated financial tables are prepared by comparing that of previous periods to determine financial situation and performance trends. When it has been found necessary, comparative information is reclassified and important differences are explained to ensure that comparative information would be in accordance with current period consolidated financial statements.

In this context, the Group's profit or loss statement dated December 31, 2018, has been reclassified and the After-sales Services figure of 6,854,324 Turkish lira has been included under the "Marketing, Sales and Distribution Expenses" account instead of the "General Administrative Expenses" account. In addition, 883,244 Turkish lira, which was recorded in the "Expenses from Investment Activities" account under TFRS 9 in the profit or loss statement dated December 31, 2018, has been reclassified under the "Other Expenses from Operating Activities" account.

e) Functional and reporting currency

The functional currency of the companies which included in the consolidation is TL and companies record the accounting records according to commercial and financial legislation and GAAP which is published by Minister of Finance. Each entity's financial position and results of operations are expressed in TL which is the functional currency of the Group's consolidated financial statements.

The Group's subsidiaries' functional currencies are summarized in Note 1.

f) Basis of consolidation

Consolidated financial statements cover the financial statements of the companies controlled by the Company and its subsidiaries. The Group has control over an entity when:

- the Group has power over the investee/assets;
- exposure, or rights, to variable returns from its involvement with the entity and
- the ability to use its power over the entity to affect the amount of the Group's returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to the control power, including:

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.1 Basis of presentation of consolidated financial statements (continued)

f) Basis of consolidation (continued)

- The comparasion of voting rights held by the Group to those held by the other shareholders;
- Potential voting rights held by the Group and other shareholders;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable TASs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under TFRS 9 Financial Instruments, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.2 Changes in Accounting Policies

Except for the changes below, the accounting policies applied in these consolidated financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2018.

2.2.1 TFRS 15 Revenue from Contracts with Customers

TFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced TAS 18 Revenue, TAS 11 Construction Contracts and related interpretations.
The new standard will change the guidelines in existing TFRSs and govern the principles to be implemented by the company while reporting useful information to the financial statement users about the nature, amount, timing and uncertainty of the revenue and cash flows arising from contracts with customers. The essential principle of the standard is to include in the financial statements the amount to which the Company expects to be entitled from selling goods or services that are promised to customers.
This amendment applies to the annual accounting periods starting on January 1, 2018 and after, and the amendments do not have a significant effect on the accounting of the Group's furniture sales revenues.

2.2.2 TFRS 16 Leases

On 16 April 2018, POA issued the new leasing standard which will replace TAS 17 Leases, TFRS Interpretation 4 Determining Whether an Arrangement Contains a Lease, TAS Interpretation 15 Operating Leases – Incentives, and TAS Interpretation 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently changes to TAS 40 Investment Properties. TFRS 16 Leases eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

First Transition to TFRS 16 Leases Standard

The Company has accepted the TFRS 16 "Leases" standard which replaces the TAS 17 "Leases" standard in its financial statements, effective starting from its first application date on January 1, 2019, retrospectively with the cumulative effect of implementing the standard for the first time ("cumulative effect method"). During the simplified transition application of the method defined in the relevant standard, no rearrangement is necessary in the comparative information on financial statements or in the retained earnings.

As part of the first application of the TFRS 16 Leases Standard, the "Lease" liability has been recognized in the financial statements regarding lease commitments which used to be classified as operation leases in line with the TAS 17 "Leases" standard before January 1, 2019. This lease liability is measured at the present value of the unrealized rents as of the date of transition, discounted by the alternative borrowing interest rate at the date of the first application of the Company.

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.2 Changes in Accounting Policies (continued)

2.2.2 TFRS 16 Leases (continued)

Right-of-use assets are recognized as an amount equal to the lease liabilities (adjusted for the amount of prepaid or accrued lease payments) under the simplified transition application of the relevant standard.

The following facilitating practices defined in the TFRS 16 are adopted within the transition:

a) Leases with a lease term of one (1) year or less are excluded.
b) Low-value assets are excluded.

The Group started implementing the Turkish Financial Reporting Standards (TFRS) 16 Leases Standard on January 1, 2019. For the leases previously classified as operating leases under the Turkish Accounting Standards (TAS) 17, it has recognized a right-of-use asset in the summary consolidated financial statements based on an amount equal to the lease liability corrected for the amount of all prepaid or accrued lease payments as of January 1, 2019.

The effects of the implementation of TFRS 16 on the consolidated statement of financial position (balance sheet) of December 31, 2019 and the summary consolidated profit or loss statement for accounting period ended the same date are presented below. The implementation of the standard does not have a material effect on the summary consolidated statement of other comprehensive income or the consolidated cash flow statement..

Balance Sheet

	31.12.2019	**TFRS 16 Effects**	**31.12.2019 (Excluding Effects)**
Current Assets	**434,224,410**	**-**	**434,224,410**
Cash and cash equivalents	4,862,454	-	4,862,454
Trade receivables	146,390,726	-	146,390,726
Other receivables	8,283,318	-	8,283,318
Inventories	241,944,621	-	241,944,621
Prepayments	27,427,524	-	27,427,524
Current tax assets	684,941	-	684,941
Other current assets	4,630,826	-	4,630,826
Total	**434,224,410**	**-**	**434,224,410**
Assets held for sale	-		-
Non-current assets	**343,171,241**	**-**	**302,899,813**
Other receivables	1,916,530	-	1,916,530
Financial investments	9,469,958	-	9,469,958
Investment properties	-	-	-
Property, plant and equipment	258,514,240	-	258,514,240
Right-of-Use Assets	40,424,299	40,424,299	-
Intangible assets	20,630,756	-	20,630,756
Prepayments	12,215,458	(152,871)	12,368,329
			-
TOTAL ASSETS	**777,395,651**	**40,271,428**	**737,124,223**

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.2 Changes in Accounting Policies (continued)

2.2.2 TFRS 16 Leases (continued)

Liabilities	**31.12.2019**	**TFRS 16 Effects**	**31.12.2019 (Excluding Effects)**
Current Liabilities	**509,144,675**	**-**	**502,467,076**
Short-term borrowings	55,005,861	6,677,599	48,328,262
Short-term portion of long term borrowings	146,764,530	-	146,764,530
Trade payables	159,619,471	-	159,619,471
Payables related to employee benefits	8,426,569	-	8,426,569
Other payables	41,654,831	-	41,654,831
Deferred revenue	84,202,725	-	84,202,725
Short-term provisions	13,416,161	-	13,416,161
Other current liabilities	54,527	-	54,527
		-	-
Non-current Liabilities	**256,262,084**	**-**	**223,210,251**
Long-term borrowings	248,701,726	33,051,833	215,649,893
Other payables	2,810,297	-	2,810,297
Long-term provisions	4,750,061	-	4,750,061
			-
Equity	**11,988,892**	**-**	**11,446,896**
Equity attributable to owners of the company	**11,988,892**	**-**	**11,446,896**
Share capital	269,069,767	-	269,069,767
Reverse merger capital differences	(159,069,767)	-	(159,069,767)
Treasury share (-)	(510,991)	-	(510,991)
Share premiums	9,282,945	-	9,282,945
Other comprehensive income / (expense) not to be reclassified to profit or loss	138,996,492	-	138,996,492
Other comprehensive income / (expense) to be reclassified to profit or loss	(10,370,082)	-	(10,370,082)
Legal reserves	1,107,177	-	1,107,177
Accumulated losses	(171,257,862)	-	(171,257,862)
Profit/ (loss) for the period	(65,258,787)	541,996	(65,800,783)
Total Liabilities and Equity	**777,395,651**	**40,271,428**	**737,124,223**

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.2 Changes in Accounting Policies (continued)

2.2.2 TFRS 16 Leases (continued)

	01.01.2019-31.12.2019	**TFRS 16 Effects**	**31.12.2019 (Excluding Effects)**
Profit or loss			
Revenue	602,401,733	-	602,401,733
Cost of sales (-)	(416,280,757)	-	(416,280,757)
Gross profit	**186,120,976**	**-**	**186,120,976**
Selling, marketing and distribution expenses (-)	(127,715,532)	6,595,250	(134,310,782)
General administrative expenses (-)	(27,634,345)	-	(27,634,345)
Research and development expenses (-)	(4,614,222)	-	(4,614,222)
Other income from operating income	81,691,085	-	81,691,085
Other expense from operating expenses (-)	(78,487,469)	-	(78,487,469)
Operating profit	**29,360,493**	**6,595,250**	**22,765,243**
Income from investing activities	-	-	-
Expenses from investing activities (-)	(716,547)	-	(716,547)
Operating profit before financial expense	**28.643.946**	**-**	**22,048,696**
Finance income	64,030,314		64,030,314
Finance expenses (-)	(175,594,634)	(5,900,383)	(169,694,251)
Profit/ (loss) before tax from continuing operations	**(82.920.374)**	**(5,900,383)**	**(83,615,241)**
Taxation on income	**17,661,588**		**17,814,459**
- Deferred tax benefit /(expense)	17,661,588	(152,871)	17,814,459
Profit/ (Loss) for the period	**(65,258,787)**	**(152,871)**	**(65,800,783)**

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.2 Changes in Accounting Policies (continued)

2.2.3 Hedge Accounting

The Group identifies cash flow hedging as a hedge against volatility, which results from a particular risk and may affect profit/loss, in cash flows of a registered asset, and a liability or transactions that may be associated with a certain risk and which are likely to occur at the date of the bank loan agreement.

The Group presents its gains and losses related to cash flow hedging transactions, which are considered effective, as "other comprehensive revenues or expenses to be reclassified in profit or loss in equity." In case the hedging commitment or potential future transaction becomes a non-financial asset or liability, gains or losses arising from these transactions, which are presented among the equity items, are recognized from these equity items and included in the acquisition cost or book value of the asset or liability in question. Otherwise, the amounts recognized under the equity items are transferred to the profit or loss statement in the period in which the potential hedging transaction affects the table in question and are presented as income or expense. If the potential transaction is no longer expected to occur, the accumulated earnings and losses previously recognized in equity are transferred to the profit or loss statement. In case the hedging instrument is expired, sold, terminated or used, or if its designation is revoked, without being identified another instrument instead or being extended in line with the documented hedging strategy, the earnings and losses previously recognized in other comprehensive revenue continue to be classified under equity until the final commitment or appraised transaction affects the profit or loss table.

2.3 Changes in Accounting Estimates and Errors

Changes in the accounting estimates should be accounted in financial statements prospectively; if the change is related to only one period, it should be accounted at the current year that the change is performed, but if it is related to more than one period it should be accounted at both the current and future periods. There are no significant changes in the accounting estimates for the current period.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.4 New and Revised Turkish Accounting Standards (continued)

a) Amendments to and interpretations on new standards in force as of December 31, 2019, and previously available standards

- **The amendments to TFRS 9 "Financial Instruments"** are effective for annual reporting periods starting on or after January 1, 2019. 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 TAS 39, the difference cannot be recognized by spreading over the remaining life of the instrument.
- **The amendments to TAS 28**, "Investments in Associates and Joint Ventures," are effective for annual reporting periods starting on or after January 1, 2019. 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 recognize them.

- **TFRS Interpretation 23, "Uncertainty over Income Tax Treatments,"** is effective for annual reporting periods beginning on or after January 1, 2019. This interpretation clarifies some of the uncertainties in the implementation of the TAS 12 Income Taxes standard. The IFRS Interpretations Committee clarified that if there was an uncertainty in tax practices, it would be necessary to apply the TAS 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 recognize 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 Interpretation 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.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.4 New and Revised Turkish Accounting Standards (continued)

a) Amendments to and interpretations on new standards in force as of December 31, 2019, and previously available standards

- **TAS 19 "Employee Benefits,"**the amendment to the plan, downsizing or fulfillment improvements are effective for annual reporting periods starting on or after January 1, 2019. These improvements require the following changes:

• Using current assumptions to determine current service cost and net interest for the period after the change of the plan, downsizing and fulfillment;

• Reflecting any decrease in surplus value and a fulfillment gain or loss in financial statements, even if the accounting for profit or loss as part of prior period service cost or effect of the asset ceiling has not been previously recognized in the financial statements.

- **Annual improvements for the period 2015–2017** applies to annual reporting periods starting on or after January 1, 2019.

These improvements include the following changes:

• The business that has control of TFRS 3 "Business Combinations" re-measures its previously acquired share in the joint operation.

• The business that has joint control of TFRS 11 "Joint Arrangements" does not re-measure its previously acquired share in the joint operation.

• The business that implements TAS 12 "Income Taxes" recognizes income tax effects of dividends in the same way.

• TAS 23 "Borrowing Costs" recognizes each borrowing to be made available for the intended use or sale of a qualifying asset as the part of the general borrowing.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.4 New and Revised Turkish Accounting Standards (continued)

b) Standards and amendments that have been published but not yet entered into force as of December 31, 2019

- **The amendments to the definition of material of TAS 1 and TAS 8** are effective for annual reporting periods starting on or after January 1, 2020. Amendments to TAS 1 "Presentation of Financial Statements" and TAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" as well as other TFRS amendments depending on these amendments are as follows:

  i) Use of material definition consistent with the TFRS and financial reporting framework
  ii) clarification of the definition of material, and
  iii) inclusion of some guidance in TAS 1 regarding non-material information

- **TFRS 3'teki değişiklikler -** işletme tanımı; 1 Ocak 2020 tarihinde veya bu tarihten sonra başlayan yıllık raporlama dönemlerinde geçerlidir. Bu değişiklikle birlikte işletme tanımı revize edilmiştir. UMSK tarafından alınan geri bildirimlere göre, genellikle mevcut uygulama rehberliğinin çok karmaşık olduğu düşünülmektedir, ve bu işletme birleşmeleri tanımının karşılanması için çok fazla işlemle sonuçlanmaktadır.

- TFRS 17, "Insurance Contracts," is effective for annual reporting periods starting on or after January 1, 2021. This standard replaces TFRS 4, which currently allows a wide range of implementations. IFRS 17 will fundamentally change the accounting for all entities that issue insurance contracts and investment contracts with voluntary participation features.

c) Standards and amendments issued by the International Accounting Standards Authority (IASB) but not published by the Public Oversight, Accounting and Auditing Standards Authority (KGK) as of December 1, 2019

- Amendments to TFRS 9, TAS 39 and TFRS 7 - Benchmark interest rate reform is effective for annual reporting periods starting on or after January 1, 2020. These amendments provide certain facilitating practices in relation to the benchmark interest rate reform. These practices are related to hedge accounting and the impact of the IBOR reform should generally not lead to the discontinuation of hedge accounting. Additionally, any ineffective hedge should continue to be recorded in the income statement. Given the widespread hedge accounting in IBOR-based contracts, these facilitating practices will affect all companies in the industry.

The announced new and revised accounting standards and interpretations are not expected to significantly affect the Company's accounting policies.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies

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

a) Revenue

General model for accounting of revenue

In accordance with TFRS 15, a five-step model is followed in recognizing revenue for all contacts with customers.

Step 1: Identify the contract
A contract with a customer is in the scope of the new standard when the contract is legally enforceable and certain criteria are met. If the criteria are not met, then the contract does not exist for purposes of applying the general model of the new standard, and any consideration received from the customer is generally recognized as a deposit (liability).
Contracts entered into at or near the same time with the same customer (or a related party of the customer) are combined and treated as a single contract when certain criteria are met.

Step 2: Identify the performance obligations
The Group defines the "performance obligations" as a unit of account for revenue recognition. The company assesses the goods or services it has committed in a contract with the customer and determines each commitment to the customer as one of the performan obligations as a performans obligation:
(a) good or service (or a bundle of goods or services) that is distinct; or
(b) series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.
An entity may define a contract or a service separately from other contractual obligations and define it as a different commodity or service if the customer makes use of such goods or services alone or in combination with other resources available for use. A single contract may contain promises to deliver to the customer more than one good or service. At contract inception, an entity evaluates the promised goods or services to determine which goods or services (or bundle of goods or services) are distinct and therefore constitute performance obligations.

Step 3: Determine the transaction price
When determining the transaction price, an entity assumes that the goods or services will be transferred to the customer based on the terms of the existing contract. In determining the transaction price, an entity considers variables considerations and significant financing components.

Significant financing component
To estimate the transaction price in a contract, the Group adjusts the promised amount of consideration to reflect the time value of money if the contract contains a significant financing component. Significant financing component exists if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. The Group does not have a sales transaction with a significant financiang component.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

a) Revenue (continued)

General model for accounting of revenue (continued)

Step 4: Allocate the transaction price

The transaction price is allocated to each performance obligation – generally each distinct good or service – to depict the amount of consideration to which an entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

Step 5: Recognize revenue

An entity recognizes revenue over time when one of the following criterias are met:

- Customer simultaneously receives and consumes the benefits as the entity performs, or

- The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or

- The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date

For each performance obligation that is satisfied over time, an entity applies a single method of measuring progress toward complete satisfaction of the obligation. The objective is to depict the transfer of control of the goods or services to the customer. To do this, an entity selects an appropriate output or input method. It then applies that method consistently to similar performance obligations and in similar circumstances. If a performance obligation is not fulfilled in time, then the Group recognizes revenue when the control of goods or services is transferred to the customer.

The Group generates revenue by producing and selling products such as cord fabric, polyester and nylon yarn and composite materials. Revenue is recognized in accordance with delivery terms agreed with the customer when the products are transferred to the customer.

In cases where the cost to be incurred by the Group exceeding the expected economic benefits to be incurred to fulfill the contractual obligations exceeds the expected economic benefit, the Group provides a provision in accordance with TAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Contract modifications

The Group recognizes a contract modifications as a separate contract if the modification results in a promise to deliver additional goods or services that are distinct and an increase in the price of the contract by an amount of consideration that reflects the entity's stand-alone selling price of those goods or services adjusted to reflect the circumstances of the contract. If the goods or services, then the entity accounts for it on a combined basis with the original contract, as if the additional goods or services were part of the initial contract.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

a) Revenue (continued)

Contract modifications (continued)

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below.

Revenues are recognised on an accrual basis at the time deliveries are made, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group at the fair value of considerations received or receivable. Net sales represent the invoiced value of goods sold less sales returns and commissions, and exclude sales taxes. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognized as interest income on a time proportion basis that takes into account the "effective yield" on the asset.

The Group transfers revenue to a customer and recognizes the revenue in its consolidated financial statements as per it fulfills or when it fulfills the performans obligation. When the control of an asset is checked (or passed to) by the customer, the assets is transferred.

The Group recognizes the revenue in the financial statements in accordance with the following basic principles:

a) Identify the contracts with customer

b) Identify the performance obligations in contracts

c) Determine the transaction price in contracts

d) Transaction price allocation to performance obligations

e) Revenue recognition when each performance obligations are met.

b) Inventories

Inventories are valued at the lower of cost or net realisable value. Cost elements included in inventories are materials, labour and an appropriate amount of factory overheads. The unit cost of inventories is determined on the moving weighted average basis.

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

c) 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. 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. 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 increase in carrying amount on the revaluation of such land, buildings, land improvements and machinery and equipments is charged to revaluation funds in equity. 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.

Each year, the difference between the depreciation calculated over the revalued amount and the depreciation allocated over the pre-revaluation cost of the asset is transferred from the accumulated losses to the revaluation fund. Similar policies are applied to the disposal of tangible assets.

Buildings, land improvements and machinery and equipments are capitalized and depreciated when their capacities are ready to fully utilized and their physical conditions meet the specified production capacity.

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

Land improvements and buildings	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

Useful lives and residual value are reviewed at each reporting date and adjusted if necessary.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

c) Property, plant and equipment (continued)

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
- Professinal 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.

d) 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 2 to 5 years.

Intangible assets include acquired rights and copyrights.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

d) Intangible assets (continued)

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.

e) Financial Instruments

i) Recognition and measurement

Trade receivables and debt securities are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability for an item not at FVTPL is initially measured at fair value plus, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii) Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI – debt and equity investment, or equity investment.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

f) Financial assets

All of the Group’s financial investments are under the Fair Value through Other Comprehensive Income (FVOCI) category. (Footnote 11) The book value of the financial assets in the FVOCI classification has been recognized at “acquisition cost” because such assets do not have a fair value registered with the stock exchange or their fair value could not be measured reliably due to the inappropriateness of alternative methods used in the calculation of fair value.

g) Taxes on income

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

Deferred tax assets or liability are reflected to the consolidated financial statements to the extent that they will decrease or increase the tax payable amount when the temporary differences will disappear. Deferred income tax liabilities are recognised for all taxable temporary differences, whereas deferred income tax assets resulting from deductible temporary differences 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 tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred income tax assets and deferred income tax liabilities related to income taxes levied by the same taxation authority and are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities (Note 21).

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

h) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives such as goodwill are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

i) Provisions for employee benefits

Provisions for termination indemnity

In accordance with existing social legislation in Turkey, the Company is required to make lump-sumtermination 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.

j) Provisions, contingent assets and liabilities

Provisions are recognised when the Group has a present legal constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

j) Provisions, contingent assets and liabilities (continued)

Where the effect of time value of money is material, the provision amount is determined as the present value of the payments expected to be required for the fulfillment of the obligation. In determining the discount rate to be used in the reduction of the provisions to the present value, the interest rate in the relevant markets and the risk related to the said liability are taken into consideration. The discount rate must be pre-tax rate. This discount rate does not include the risk of future cash flows.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are treated as contingent assets or liabilities and not included in financial statements .

k) Equity items

Ordinary shares are classified as equity. Dividends payable are recognised in the financial statements as a result of profit distribution in the period in which they are declared.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Group's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Group's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Group's equity holders.

In the restatement of shareholders' equity items, the addition of funds formed due to inflation such as the revaluation value increase fund in share capital is not considered as a contribution from shareholders. Additions of legal reserves and retained earnings to share capital are considered as contributions by shareholders.

In the restatement of shareholders' equity items added to share capital the capital increase registry dates or the payment dates are considered. In the restatement of share premiums, the payment dates are considered (Note 16).

l) Related Parties

Related parties are individuals or entities that are related to the entity that is preparing its financial statements ("reporting entity").

a) An individual or a close family member is considered related party of the reporting entity when the following criteria are met: If a certain individual,
   - (i) Has control or joint control over the reporting entity,
   - (ii) Has significant influence over the reporting entity,
   - (iii) Is a key management personnel of the reporting entity or a parent company of the reporting entity.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

2.5 m) Related Parties (continued)

b) An entity is considered related party of the reporting entity when the following criteria are met:

(i) If the entity and the reporting entity is within the same group. (meaning every parent company, subsidiary and other subsidiaries are considered related parties of others).
(ii) If the reporting entity is a subsidiary or a joint venture of another entity (or of another entity that the entity is within the same group).
(iii) If both of the entities are a joint venture af a third party.
(iv) If one of the entities are a joint venture of a third party while the other entity is a subsidiary of this third party.
(v) If entity has plans of post employment benefits for employees of reporting entity or a related party of a reporting entity. If the reporting entity has its own plans, sponsor employers are also considered as related parties.
(vi) If the entity is controlled or jointly controlled by an individual defined in the article (a).
(vii) If an individual defined in the clause (i) of article (a) has significant influence over the reporting entity or is a key management personnel of this certain entity (or a parent company of the entity).

Related party transactions are transfers of resources, services or liabilities between related parties and the reporting entity, regardless of whether or not against remuneration. For the purpose of these consolidated financial statements, shareholders of Hacı Ömer Sabancı Holding A.Ş. Group Companies, key management personnel and board members, in each case together with their families and companies controlled by or affiliated with them and associated companies are considered and referred to as related parties The Group determined its top management as board of directors, the president (CEO) and vice presidents, and the general managers of the subsidiaries (Note 6)

m) Earnings per share

Earnings per share are determined by dividing net profit by the weighted average number of shares that have been outstanding during the period concerned. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Share issuances are regarded as issued shares. Accordingly the weighted average number of shares used in earnings per share computations is derived by giving retrospective effect to the issuances of the shares without consideration (Note 25).

n) Statement of cash flows

Consolidated statements of cash flows are reported by presenting cash flows from operating, investing and financing activities separately.

Cash flows from operating activities are the cash flows from Group's principal revenue-producing activities.

Cash flows from investing activities are the cash flows from Group's acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Cash flows from financing activities are the cash flows from Group's changes in the size and composition of the contributed equity and borrowings.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

o) 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.

r) Financial Leases

(i) Determining whether an arrangement contains a lease

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

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

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases are not recognised on the Group's consolidated statement of financial position.

(iii) Lease payments

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

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

s) Effect of changes in foreign exchange rates

<u>Foreign Currency Transactions and Balances</u>

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in TL, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

s) Effect of changes in foreign exchange rates (continued)

In preparing the financial statements of the individual entities, transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

t) 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.

2.5 Going Concern

For the year ended 31 December 2019, the Group has incurred a loss of TL 65,258,787. As at 31 December 2019, the accumulated losses amounting to TL 171,257,862. As at 31 December 2019, the Group's shareholders' equity which is negative conditions together with previous' year loss is TL 11,988,892.

For the strong capital structure, within the scope of the Public Disclosure Platform's Issued Document dated 20 February 2019 approved by the Capital Market Board's decision no 10/221 dated 14 February 2019 the paid-in capital was increased from TL 209,069,767 to 269,069,767. All of the issued shares with a nominal value of TL 60,000,000 were sold to Doğanlar Yatırım Holding A.Ş.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.6 Going Concern (continued)

Along with this, the Group also refinanced its loans in 2019 and extended them to long term. The Group also restructured and lowered loan interest rates in the last quarter of 2019 (by 15 to 20 points). In 2020, the Group's goal is to create low-interest long-term resources that encourage growth. Against fluctuating exchange rates, the Group is discussing the terms of several hedging products with financial institutions. Additionally, sales teams have set new policies aimed at increasing exports to provide protection against currency risk. This will create natural protection against debts in foreign currencies. The Group will continue to utilize affordable Eximbank loans in line with its share in exports. The Group maintained its bank portfolio in 2019 and increased its limits in state banks. To increase sales revenues and generate a positive cash flow, consumer financial products were introduced in branches and stores, making it possible for customers to purchase furniture with a 36-month term loan option. The Group will close its loans with the cash generated by increased sales. Additionally, by achieving the target EBITDA, it will reduce its net debt/EBITDA ratio in 2020**.**

The Doğtaş Brand opened stores in seven new countries in 2019 in line with the strategic targets in international markets. In addition to regular dealer business, the Group launched projects for hotels and residences in countries such as Qatar and Bahrain in the last quarter of 2019. Negotiations regarding hotels, residences, etc. are ongoing in 2020 as well.

The Kelebek Brand's international market share in 2019 grew 95 percent year-on-year. Also, five different sales points were opened in India, Austria, the Turkish Republic of Northern Cyprus, Sri Lanka and Mauritius. In addition to these sales points, the Group has established commercial relations with market-leader companies abroad, especially in Australia, Morocco, Palestine and North Iraq, who regularly sell Kelebek products in their own brand's store.

The company's bedding brand, Lova, expanded its colorful home textile collection by introducing in its portfolio the first 25-year guaranteed product in the industry. By announcing the hotel collection series, the brand increased its market share in project-based and contracting works. Additionally, the brand has developed a variety of bed bases in large sizes, using fabric technologies with industry-leading features.

The Group has also reviewed purchasing processes by taking into account the detailed budgeting plans to increase profitability, and entered into long-term contracts and fixed the prices of raw materials to reduce the cost of procurement. To increase gross profitability, the Group is pursuing cost reduction, cost optimization and improved factory efficiency. A capacity report was obtained from TOBB for the Biga and Düzce plants. The gaps in product segmentation will be completed and new products will enter into the portfolio, constituting 30 percent of whole products. Furthermore, the Group aims to improve gross profitability by switching to products with high design value.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.6 Going Concern (continued)

In addition, on 11 March 2019, the Group made a material event disclosure at the Public Disclosure Platform in accordance with the CMB's decision no 11/352:

The Company's financial statements are reported in accordance with CMB regulations dated 31 December 2018. The shareholders' equity in our Company's financial statements is TL 11,988,892

The main reason for the loss of capital in our company's equity as stated in the balance sheet dated December 31, 2019, is the financing expense reflected in our income statement and balance sheet in 2019.

Article 376 of the Turkish Commercial Code No. 6102 "Until 1/1/2023, the calculation of loss of capital within the scope of Article 376 of the Law may not take into account foreign exchange losses arising from foreign currency liabilities not yet fulfilled." is phrased.

Accordingly, the currency losses caused by banking transactions that were reflected in the shareholder's equity as of December 31, 2019, was 26,002,123 Turkish lira, while the real currency losses amounted to 854,866 Turkish lira for the same period.

In this scope, the Special Purpose Financial Statement (TCC 376 balance sheet) has been prepared based on the fair value of the brand value in intangible assets and not taking into consideration the foreign currency loss that are not realized pursuant to the CMB's resolution no. 11/352 of 10 April 2014 (decree no. 2014/11).

Given that the current value of the Company's brand is a total of 32,500,000 Turkish lira, and when the currency losses that have not realized are disregarded, the Special Purpose Financial Statement (TCC Art. 376 balance sheet) shows the equity of the Company as 104,916,899 Turkish lira. This amount shows that the Group maintains its paid-in capital of 110,000,000 Turkish lira.

2.7 Critical Accounting Judgments, Estimates and Assumptions

Preparation of the consolidated financial statements in accordance with Turkish Financial Reporting Standards necessitates the usage of estimations and assumptions that can affect amounts of reported assets and liabilities as of reporting date, the explanation for the contingent assets and liabilities and income and expenses reported during the accounting period. Although these estimations and assumptions are based on the best judgement of the Group management related with the current conditions and transactions, actual results may differ from these estimations. Estimations are revised on a regular basis; necessary adjustments and corrections are made; and they are included in the income statement when they accrue. Estimations and assumptions subject to the risk of leading to corrections in the registered value of the assets and liabilities in the next financial period are given below.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.7 Critical Accounting Judgments, Estimates and Assumptions (continued)

2.7.1 Useful lives of tangible and intangible assets

In accordance with the accounting policy given in the Note 2.5, tangible and intangible assets are stated at historical cost less depreciation and net of any impairment. Useful lives depend on best estimates of management, are reviewed in each financial period and necessary corrections are made.

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

Land, land improvements, machinery and equipment and buildings that were revalued 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.

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.7 Critical Accounting Judgments, Estimates and Assumptions (continued)

2.7.3 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 5,295,160 TL on 31 December 2019 (2018: TL 6,545,968). If the estimation had appreciated/depreciated by 10%, the provision amount would have been 529,516 TL higher/lower (2018: TL 654,597 higher/lower).

2.7.4 Deferred taxes calculated over accumulated losses

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 2019, the Group recognised deferred income tax assets amounting to TL 32,183,241 (31 December 2018: TL 22,841,495) over the carryforward tax losses amounting to TL 160,916,207 (31 December 2018: TL 114,207,477).

The Group management estimated that carryforward tax losses amounting to TL 160,916,207 will be utilized considering its budgeted financial statements which were prepared in accordance with the approved 5-years business plan.

3. CASH AND CASH EQUIVALENTS

As of 31 December 2019 and 31 December 2018, the details of cash and cash equivalents are as follows:

	31 December 2019	**31 December 2018**
Cash on hand	11,246	8,155
Cash at banks – Demand deposit	4,365,072	3,287,486
Other cash and cash equivalents (*)	486,136	271,247
	4,862,454	**3,566,888**

(*) As at 31 December 2019 and 31 December 2018 other cash and cash equivalents comprised of credit card POS receivables.

As at 31 December 2019 and 31 December 2018, there is no restriction on bank accounts.

The currency, credit risks and sensitivity analysis of the Group's financial assets and liabilities are disclosed in Note 22

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

4. BORROWINGS

	31 December 2019		
	Weighted average effective interest rate %	**Original currency**	**TL Equivalent**
Short-term borrowings:			
EUR denominated bank borrowings	%1.75 - %6.08	2,600,000	17,291,300
USD denominated bank borrowings	%4.90-%7	3,000,000	17,820,600
TL denominated bank borrowings	%10.55 - %24.50	13,216,362	13,216,362
Short-term lease payables		6,677,599	6,677,599
Short term borrowings			**55,005,861**
Short-term portion of long-term borrowings:			
EUR denominated bank borrowings	%1.75 - %6.08	12,850,794	85,465,489
USD denominated bank borrowings	%4.90-%7	701,977	4,169,881
TL denominated bank borrowings	%10.55 - %24.50	57,129,160	57,129,160
Short-term portion of long-term borrowings			**146,764,530**
Total short-term borrowings			**201,770,391**
EUR denominated bank borrowings	%1.75 - %6.08	18,652,642	124,051,261
USD denominated bank borrowings	%4.90-%7	1,875,248	11,139,350
TL denominated bank borrowings	%10.55 - %24.50	80,459,282	80,459,282
Long-term lease payables		33,051,833	33,051,833
Long-term bank borrowings			**248,701,726**
Total bank borrowings			**450,472,117**

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

4. BORROWINGS (continued)

	31 December 2018		
	Weighted average effective interest rate %	**Original currency**	**TL Equivalent**
Short-term borrowings:			
EUR denominated bank borrowings	%1.75 - %6.08	3,495,937	21,073,508
TL denominated bank borrowings	%15.90 - %29.00	73,501,569	73,501,569
Short term borrowings			**94,575,077**
Short-term portion of long-term borrowings:			
EUR denominated bank borrowings	%1.75 - %6.08	11,074,259	66,755,632
TL denominated bank borrowings	%15.90 - %29.00	53,123,772	53,123,772
Short-term portion of long-term borrowings			**119,879,404**
Total short-term borrowings			**214,454,481**
EUR denominated bank borrowings	%1.75 - %6.08	20,963,156	126,365,903
TL denominated bank borrowings	%15.90 - %29.00	35,434,112	35,434,112
Long-term bank borrowings			**161,800,015**
Total bank borrowings			**376,254,496**

As at 31 December 2019 and 31 December 2018, all borrowings are guaranteed, and there is a mortgage on the property, plant and equipment of the Group (Note 14).

The reconciliation of the Group's obligations arising from its financial activities as at 31 December 2019 is as follows:

	31 December 2019	31 December 2018
1 January borrowings	376,254,496	255,094,961
Proceed form borrowings	955,432,118	234,132,264
Repayment of borrowings	(969,205,432)	(162,797,477)
Interest accruals	22,258,050	10,180,767
Effects of change in foreign exchange	26,003,453	39,643,981
31 December borrowings	**410,742,685**	**376,254,496**

The Group's exposure to currency risk related to borrowings are disclosed in Note 22.

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

4. BORROWINGS (continued)

The details of the lease payables are as follows:

Lease payables

	Present value of the minimum lease payments	
	31.12.2019	**31.12.2018**
Within one year	6,677,599	-
Minus: future financial expenses	-	-
Present value of the lease liability	**6,677,599**	**-**
Two years or more	33,051,833	-
Minus: future financial expenses	-	-
Present value of the lease liability	**33,051,833**	**-**
Total Lease Liability	**39,729,432**	

The Company's lease liabilities means the present value of the future payables of the liabilities for stores, vehicles and buildings leased from third parties during the useful life of the asset.

The redemption schedule of borrowings as at 31 December 2019 and 31 December 2018 is as follows:

	31 December 2019	**31 December 2018**
Up to 3 months	78,871,437	49,012,542
3-12 months	122,898,955	165,441,939
1-5 years	248,701,725	161,800,015
	450,472,117	**376,254,496**

5. TRADE RECEIVABLES AND TRADE PAYABLES

	31 December 2019	**31 December 2018**
Trade receivables	**146,390,726**	**95,915,273**
-Trade receivables from related parties (Note 6)	*1,573,217*	*1,110,954*
-Trade receivables from non-related parties	*144,817,509*	*94,804,319*
Trade receivables	106,490,287	92,770,443
Notes receivable	40,902,410	4,245,718
Doubtful trade receivables	26,464,960	23,475,101
Provisions for doubtful trade receivables (-)	(26,464,960)	(23,475,101)
Deferred finance income (-)	(2,575,188)	(2,211,842)
	146,390,726	**95,915,273**

The effective interest rate applied to deferred finance income of the Group is 17 % . (31 December 2018: 24.42%).

As at 31 December 2019, trade receivables amounting to TL 49,494,313 (31 December 2018: TL 43.275.966) have not been considered as doubtful receivables although they are past due (Note 22).

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

5. TRADE RECEIVABLES AND TRADE PAYABLES (continued)

The details of credit risk, exchange rate risk and impairment for the trade receivables of the Group are disclosed in Note 22.

As at 31 December 2019 and 2018, the movement of doubtful trade receivables provision is as follows:

The movement of doubtful receivables	**2019**	**2018**
Opening balance	**23,475,101**	**23,612,910**
Provisions during the period	3,534,727	883,244
Collections during the period	(544,868)	(1,021,053)
	26,464,960	**23,475,101**

As at 31 December 2019 and 2018, trade payables are as follows:

	31 December 2019	**31 December 2018**
Trade payables	159,619,471	139,747,411
- Trade payables from non-related parties	*159,619,471*	*139,747,411*
Vendors	72,680,763	44,287,389
Notes payable	98,929,608	107,983,854
Other Trade Payables	5,900	8,346,141
Deferred finance expense (-)	(11,996,800)	(20,869,993)
	159,619,471	**139,747,411**

The effective interest rate on deferred financing expenses is 17 % (31 December 2018: 24.45%).

Details regarding liquidity risk and exchange rate risk for trade payables of the Group are described in Note 22.

6. DUE FROM AND DUE TO RELATED PARTIES

All transactions and balances with related parties within the Group intercompany profits, unrealized gains and losses are not included in this note has been eliminated from the records for the purpose of consolidation.

a) Trade receivables and payables due from related parties as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	**31 December 2018**
Due from related parties		
Doğtaş Germany GmbH	408,806	230,866
Doğtaş Bulgaria Eood	68,710	9,645
Doğtaş Holland B.V.	6,651	--
Other	1,089,050	870,443
	1,573,217	**1,110,954**
Due to related parties		
Doğanlar Yatırım Holding A.Ş.	41,203,153	56,726,747
Real person shareholders	1,022	252
	41,204,175	**56,726,999**

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

6. DUE FROM AND DUE TO RELATED PARTIES (continued)

b) Rendered of goods and services to related parties and financial income from related parties for the year ended 31 December 2019 and 31 December 2018 are as follows:

	1 January – 31 December 2019	1 January – 31 December 2018
Services rendered		
Doğanlar Yatırım Holding A.Ş.	68,125	41,139
Real person shareholders	56,228	25,073
Other	136	226,371
	124,489	**292,583**

c) Purchase and of goods and services to related parties for the year ended 31 December 2019 and 31 December 2018 are as follows:

	1 January – 31 December 2019	1 January – 31 December 2018
Sales and services purchased		
Doğanlar Yatırım Holding A.Ş.	400,202	555,260
Korad Gayrimenkul Yatırım İnş. A.Ş.	68,309	25,073
	468,511	**580,333**

	1 January – 31 December 2019	1 January – 31 December 2018
Interests received from related parties		
Doğanlar Yatırım Holding A.Ş.	8,002,999	2,972,008
	8,002,999	**2,972,008**

d) Key management compensation for the year ended 31 December 2019 ve 31 December 2018 are as follows:

	31 December 2019	31 December 2018
Short term compensation and other rights	5,135,360	5,793,944
	5,135,360	**5,793,944**

The remunerations which are provided to Board of Directors and key management personnel (The Group has determined key management personnel as the chairman, members of the Board of Directors and general manager of the Company) during the periods ending 31 December 2019 and 31 December 2018 are short-term compensation and include salary, bonus, post-employment benefits and other payments. There are no post-employment benefits, other long-term benefits and share-based payments during the periods ended 31 December 2019 and 2018.

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

7. OTHER RECEIVABLES AND OTHER PAYABLES

	31 December 2019	31 December 2018
Other short-term receivables		
Deposits and guarantees given	3,753,667	1,806,390
Other Doubtful Receivables	732,444	--
Provision for Other Doubtful Receivables (-)	(732,444)	--
Receivables from tax authority	4,524,353	984,922
Receivables from personnel	5,298	81,667
	8,283,318	**2,872,979**

	31 December 2019	31 December 2018
Other long-term receivables		
Deposits and guarantees given	1,510,993	2,063,928
Other receivables	405,537	398,039
	1,916,530	**2,461,967**

	31 December 2019	31 December 2018
Other short-term payables		
Other payables	41,654,831	56,950,450
-Other payables to related parties (Note 6)	*41,204,175*	*56,726,999*
-Other payables to non-related parties	*450,656*	*223,451*
Taxes, fees and other deductions to be paid	449,551	223,451
Other Payables	1,105	--
	41,654,831	**56,950,450**

	31 December 2019	31 December 2018
Other long-term payables		
Other payables	2,810,297	711,205
-Other payables to related parties (Note 6)	--	--
-Other payables to non-related parties	*2,810,297*	*711,205*
Deposits and guarantees received	2,810,297	711,205
	2,810,297	**711,205**

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

8. INVENTORIES

	31 December 2019	31 December 2018
Raw materials and supplies	141,937,012	122,770,260
Semi-finished goods	29,841,470	27,651,319
Finished goods	35,273,311	27,773,752
Trading goods	34,892,828	34,013,357
	241,944,621	**212,208,688**

There are no securities issued as collateral for liabilities

	31.12.2019	31.12.2018
Costs	-	-
Provision for the Impairment of Inventories	-	-
Net Realizable Value (a)	-	-
Recognized with costs (b)	241,944,621	212,208,688
Total Inventories (a+b)	**241,944,621**	**212,208,688**

The Group has no inventory impairment as of December 31, 2019, and December 31, 2018.

9. OTHER ASSETS

	31 December 2019	31 December 2018
Deferred VAT	4,539,786	6,691,944
Advances given to personnel	86,040	44,092
Other	5,000	5,000
	4,630,826	**6,741,036**

10. PREPAYMENTS AND DEFERRED INCOME

Short-term prepaid expenses	31 December 2019	31 December 2018
Advances given	25,900,116	28,909,586
Prepaid expenses	1,527,408	2,759,297
	27,427,524	**31,668,883**

Advances given have been consisted of advances given by the Group based on raw material purchases.

Short-term deferred revenue	31 December 2019	31 December 2018
Advances received	83,287,880	41,179,412
Deferred revenue	914,845	914,846
	84,202,725	**42,094,258**

Advance received consists of the payments received by the Group in advance of the sale.

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

11. FINANCIAL INVESTMENTS

The Group's financial investments consist of financial investments whose fair value difference is reflected in other comprehensive income. As at 31 December 2019 and 31 December 2018, the financial investments are as follows:

	31 December 2019		**31 December 2018**	
	Percentage of shareholding (%)	**Amount**	**Percentage of shareholding (%)**	**Amount**
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**

As the fair value cannot be measured reliably, the carrying amount of the financial assets is considered to be the acquisition cost due to there is no fair value difference of the financial assets whose fair value difference is reflected in other comprehensive income or the non-compliance of other methods used in the calculation of fair value.

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

12. PROPERTY, PLANT AND EQUIPMENT, AND RIGHT-OF-USE ASSETS

	Lands	Land improvements and buildings	Machinery, plant and equipment	Vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
Cost								
Opening balance, 1 January 2019	54,091,340	91,883,824	121,662,927	1,113,794	63,010,871	54,127,437	--	385,890,192
Additions		672,967	1,643,472	374,036	6,365,550	9,207,561	144,211	18,407,799
Revaluation reserves	12,367,060	15,726,384	--	--	--	--	--	28,093,444
Disposals	(183,100)	(471,530)	--	--	(672,604)	(1,030,859)	--	(2,358,093)
Closing balance, 31 December 2019	**66,275,300**	**107,811,645**	**123,306,399**	**1,487,830**	**68,703,817**	**62,304,139**	**144,211**	**430,033,342**
Accumulated depreciation								
Opening balance, 1 January 2019	--	(22,918,874)	(47,617,180)	(1,113,794)	(40,208,285)	(24,968,905)	--	(136,827,039)
Charge of the year	--	(3,286,340)	(13,542,487)	(34,792)	(7,641,617)	(10,570,601)	--	(35,075,837)
Disposals	--	769	--	--	306,175	76,830	--	383,774
Closing balance, 31 December 2019	--	**(26,204,445)**	**(61,159,667)**	**(1,148,586)**	**(47,543,727)**	**(35,462,676)**	**--**	**(171,519,102)**
Net book value, 31 December 2018	**54,091,340**	**68,964,950**	**74,045,747**	**--**	**22,802,586**	**29,158,531**	**--**	**249,063,153**
Net book value, 31 December 2019	**66,275,300**	**81,607,200**	**62,146,732**	**339,244**	**21,160,090**	**26,841,463**	**144,211**	**258,514,240**

Regarding to borrowings for financing activities, there is a mortgage on property, plant and equipment of the Group amounting to EUR 70,000,000 and TL 83,500,000.

As at 31 December 2019, total insurance amount over property, plant and equipment is TL 140,814,000 (31 December 2018: TL 136,444,125).

(*) As of December 31, 2019, according to the two separate appraisal reports commissioned by Lâl Gayrimenkul Değerleme ve Müşavirlik A.Ş. on January 30, 2020 and January 24, 2020, the fair value of the Company's property, land, building, and underground setups located in Biga and Düzce was determined to be 147,882,500 Turkish lira.

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

12. PROPERTY, PLANT AND EQUIPMENT, AND RIGHT-OF-USE ASSETS (continued)

According to the above-mentioned appraisal report, the summary of the valuation of the property and land of the Company as of December 31, 2019 is as follows:

TYPE	Cost Value (31.12.2019)	Accumulated Depreciation (31.12.2019)	Net Book Value (31.12.2019)	Fair Value	Increase in Value	Deferred Tax Effect	Equity (Net)
Lands	53,908,240	--	53,908,240	66,275,300	12,367,060	1,360,377	11,006,683
Land improvements and buildings	92,085,261	(26,204,445)	65,880,816	81,607,200	15,726,384	3,459,804	12,266,580
TOTAL	**145,993,501**	**(26,204,445)**	**119,789,056**	**147,882,500**	**28,093,444**	**4,820,181**	**23,273,263**

	Lands	Land improvements and buildings	Machinery, plant and equipment	Vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
Cost								
Opening balance, 1 January 2018	53,908,240	91,315,210	119,303,465	1,113,794	58,459,934	34,170,516	14,689,984	372,961,143
Additions	183,100	471,567	2,479,483	--	4,767,175	8,262,511	1,912,082	18,075,919
Transfers	--	129,047	--	--	--	16,348,743	(16,602,066)	(124,276)
Disposals	--	(32,000)	(120,021)	--	(216,238)	(4,654,334)	--	(5,022,593)
Closing balance, 31 December 2018	**54,091,340**	**91,883,824**	**121,662,927**	**1,113,794**	**63,010,871**	**54,127,437**	**--**	**385,890,192**
Accumulated depreciation								
Opening balance, 1 January 2018	--	(19,951,450)	(46,467,175)	(1,113,794)	(33,899,250)	(17,242,611)	--	(118,674,280)
Charge of the year	--	(2,971,687)	(1,270,026)	--	(6,385,583)	(9,008,847)	--	(19,636,143)
Disposals	--	4,263	120,021	--	76,548	1,282,552	--	1,483,384
Closing balance, 31 December 2018	**--**	**(22,918,874)**	**(47,617,180)**	**(1,113,794)**	**(40,208,285)**	**(24,968,906)**	**--**	**(136,827,039)**
Net book value, 31 December 2017	**53,908,240**	**71,363,760**	**72,836,290**	**--**	**24,560,684**	**16,927,905**	**14,689,984**	**254,286,863**
Net book value, 31 December 2018	**54,091,340**	**68,964,950**	**74,045,747**	**--**	**22,802,586**	**29,158,531**	**--**	**249,063,153**

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

12. PROPERTY, PLANT AND EQUIPMENT, AND RIGHT-OF-USE ASSETS (continued)

Revaluation Assets

The land and buildings carried by the revaluation method are composed of the factory buildings of the Group and the plots and machines of these buildings. The precedent comparison method was used in the value analysis of the land and the cost approach method was used to determine the values of all buildings and machinery. Fair values are determined by valuation companies with Capital Market Board license. The valuations were last made as of 31 December 2019.

As at 31 December 2019, the gain amounting to TL 28,093,444 arising from the valuation of land, buildings, machinery, equipment and devices has been included in other comprehensive income. There is no restriction on the distribution of revaluation funds. The fair value of these machines, buildings and land is at the second level.

The Company's right-of-use assets and the changes in the associated accumulated depreciation for the period ending on December 31, 2019, are as follows:

31.12.2019

Cost value

	01.01.2019	Purchase (+)	Sale (-)	31.12.2019
Right-of-use assets	-	44,281,037	-	44,281,037
Total	**-**	**44,281,037**	**-**	**44,281,037**

Accumulated depreciation

	01.01.2019	Amortization Expenses (+)	Sale (-)	31.12.2019
Right-of-use assets	-	(3,856,738)	-	(3,856,738)
Total	**-**	**(3,856,738)**	**-**	**(3,856,738)**
Net Book Value	**-**			**40,424,299**

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

13. INTANGIBLE ASSETS

	Brand Value	**Rights**	**Total**
Cost			
Opening balance, 1 January 2019	**17,530,000**	**19,664,996**	**37,194,996**
Additions	--	1,259,378	1,259,378
Disposals	--	(22,417)	(22,417)
Closing Balance, 31 December 2019	**17,530,000**	**20,901,957**	**38,431,957**
Accumulated depreciation			
Opening balance, 1 January 2019	**--**	**(14,952,100)**	**(14,952,100)**
Charge of the year	--	(2,849,617)	(2,849,617)
Disposals	--	516	516
Closing Balance, 31 December 2019	**--**	**(17,801,201)**	**(17,801,201)**
Net book value, 31 December 2019	**17,530,000**	**3,100,756**	**20,630,756**

	Brand Value	**Rights**	**Total**
Cost			
Opening balance, 1 January 2018	**17,530,000**	**17,541,190**	**35,071,190**
Additions	--	1,999,530	1,999,530
Transfers	--	124,276	124,276
Balance at 31 December 2018	**17,530,000**	**19,664,996**	**37,194,996**
Accumulated depreciation			
Opening balance, 1 January 2018	**--**	**(11,784,414)**	**(11,784,414)**
Disposals	--	(3,167,686)	(3,167,686)
Balance at 31 December 2018	**--**	**(14,952,100)**	**(14,952,100)**
Net book value, 31 December 2018	**17,530,000**	**4,712,896**	**22,242,896**

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

14. PROVISIONS, CONTINGENT AND CONTRACTED ASSETS AND LIABILITIES

Short-term provisions

As at 31 December 2019 and 31 December 2018 the details of short term provisions are as follows:

	31 December 2019	31 December 2018
Provision for warranty expenses	4,045,700	4,621,935
Provision for litigations	4,763,665	2,270,907
	8,809,365	**6,892,842**

Long-term provisions

	31 December 2019	31 December 2018
Provision for warranty expenses	1,249,460	1,924,033
	1,249,460	**1,924,033**

As at 31 December 2019 and 31 December 2018, the movement of the guarantee expense provision is as follows:

	2019	2018
Balance at 1 January	**6,545,968**	**5,135,261**
Provisions during the period	-	2,227,520
Payments during the period	(1,250,808)	(816,813)
Balance at 31 December	**5,295,160**	**6,545,968**

As at 31 December 2019 and 31 December 2018, the movement of the lawsuit provision is as follows:

	2019	2018
Balance at 1 January	**2,270,907**	**1,462,584**
Provisions during the period	2,751,953	808,323
Payments during the period	(259,195)	--
Balance at 31 December	**4,763,665**	**2,270,907**

As at 31 December 2019 and 31 December 2018 the movement of the project expense provision is as follows:

	2019	2018
Balance at 1 January	--	156,665
Provisions during the period	--	--
Payments during the period	--	(156,665)
Balance at 31 December	--	--

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

14. PROVISIONS, CONTINGENT AND CONTRACTED ASSETS AND LIABILITIES (continued)

Contingent assets and liabilities

As at 31 December 2019 and 31 December 2018, the details of the guarantees received and given are as follows:

Guarantees given

	31 December 2019	31 December 2018
Mortgagee given (*)	549,042,000	481,960,000
Letters of guarantee given to official institutions (**)	173,882,798	167,712,846
Letter of guarantees given to buyers	1,218,991	4,191,872
Letter of guarantees given to sellers	296,697	272,520
	724,440,486	**654,137,238**

(*) 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

	31 December 2019	31 December 2018
Letters of guarantee from dealers	65,312,243	65,681,717
Mortgages from domestic dealers	15,495,000	18,055,000
Mortgages from foreign dealers	6,814,549	13,092,934
	87,621,792	**96,829,651**

As at 31 December 2019 and 31 December 2018, the tables of the Group's guarantees, pledges and mortgages (GPMs) are as follows:

GPMs issued by the Company	31 December 2019	31 December 2018
A. Total amount of GPM's given on behalf of own legal entity	724,440,486	654,137,238
B. Total amount of GPMs given in favor of the subsidiaries included in the scope of consolidation	--	--
C. Total amount of GPM's given to third parties for the purpose of carrying out ordinary commercial activities	--	--
D. Total amount of other GPM	--	--
i. Total amount of GPM's given in favor of main shareholder	--	--
ii. Total amount of GPM given in favor of other group companies not in the scope of Article B and C	--	--
iii. Total amount of GPM's given in favor of third parties not covered by Article C.	--	--
Toplam	724,440,486	654,137,238

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

14. PROVISIONS, CONTINGENT AND CONTRACTED ASSETS AND LIABILITIES (continued)

The total number of ordinary shares of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. is 10,453,488,300 with a par value of TL 0,01 and all was pledged due to the Group's borrowings as at 31 December 2019. (The total number of ordinary shares of Doğtaş Kelebek Mobilya Sanayi ve Ticaret A.Ş. is 10,453,488,300 with a par value of TL 0,01 and all was pledged due to the Group's borrowings as at 31 December 2018.)

As at 31 December 2019 total insurance on property, plant and equipment and inventories is TL 140,814,000 and TL 131,144,000 respectively (31 December 2018: TL 136,444,125 and TL 169,010,000 respectively).

As at 31 December 2019, the Group has net off cheques amounting to TL 109.875.219 by deducting from its debts (31 December 2018: TL 94.036.527).

Operating leases

There are no future payments to be made regarding operational leases that cannot be canceled.

15. EMPLOYEE BENEFITS

Short-term provisions for employee benefits

	31 December 2019	31 December 2018
Payables to personnel	5,156,890	3,926,953
Social security premiums	2,087,366	1,313,861
Taxes and funds payable	1,182,313	919,713
	8,426,569	**6,160,527**

Short-term provisions for employee benefits

	31 December 2019	31 December 2018
Provision for unused vacation	4,606,796	3,800,626
	4,606,796	**3,800,626**

Long-term provisions for employee benefits

	31 December 2019	31 December 2018
Provisions for termination indemnity	3,500,601	2,531,099
	3,500,601	**2,531,099**

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 6.379,86 for each period of service as at 31 December 2019 (31 December 2018: TL 5,434.42). 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.

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

15. EMPLOYEE BENEFITS (continued)

Long-term provisions for employee benefits (continued)

The termination indemnity liability is not subject to any funding and there is no legally required 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:

	31 December 2019	31 December 2018
Inflation rate (%)	8.00	10.50
Discount rate (%)	12.10	15.20
Real discount rate (%)	3,80	3,71

For the years ended 31 December 2019 and 2018, The movement table showing the change in the provision for severance pay is as follows:

	2019	2018
1 January itibarıyla	**2,531,099**	**2,119,647**
Interest cost	376,967	228,922
Service cost	409,504	360,996
Payment made during the period	(1,026,396)	(597,804)
Actuarial loss	1,209,427	419,338
	3,500,601	**2,531,099**

16. CAPITAL, RESERVES AND OTHER EQUITIES

Paid-in capital and capital adjustment differences

As at 31 December 2019 and 31 December 2018, the shareholding structure of the Company is as follows:

	31 December 2019		31 December 2018	
	TL	Percentage of shareholding (%)	TL	Percentage of shareholding (%)
Trading on Borsa Istanbul	125,927,492	46.80	104,534,884	49.99
Davut Doğan	16,047,503	5.96	16,047,503	7.68
Adnan Doğan	16,047,484	5.96	16,047,484	7.68
Şadan Doğan	16,047,474	5.96	16,047,474	7.68
İsmail Doğan	16,047,474	5.96	16,047,474	7.68
İlhan Doğan	16,047,474	5.96	16,047,474	7.68
Murat Doğan	16,047,474	5.96	16,047,474	7.68
Doğanlar Yatırım Holding A.Ş.	46,857,392	17.41	8,250,000	3.95
	269,069,767	**100.00**	**209,069,767**	**100.00**
Reverse merger capital differences	(159,069,767)		(159,069,767)	
	110,000,000		**50,000,000**	

16. CAPITAL, RESERVES AND OTHER EQUITIES

Paid-in capital and capital adjustment differences (continued)

As registered in Turkish Trade Registry Gazette No. 9836 dated 24 May 2019, the Company's registered capital of TL 209,069,767 has been increased to TL 269,069,767 in 2019

As of December 31, 2019, the Company's paid-in capital amount was 110,000,000 Turkish lira, consisting of 26,906,976,700 shares with 0.01 Turkish lira par value. (The Company's paid-in capital amount was 50,000,000 Turkish lira as of December 31, 2018, and it consisted of 20,906,976,700 shares with 0.01 Turkish lira par value.)The difference between the registered capital and paid-in capital amounting to TL 159,069,767 was covered by the merger transaction in 2013 by the acquisition of the assets and liabilities of Doğ-Taş Doğanlar Mobilya Enerji Üretim Sanayi A.Ş.

Share Premiums

Share premiums presented in the consolidated financial consist of the difference between the issuance cost and the nominal value as a result of the issuance of share certificates issued at a capital value above the nominal value of the Company after the initial establishment of the Company. These differences were realized as TL 9,282,945 in capital increase in previous periods.

Restricted Reserves

Reserves reserve for specific purposes other than profit from previous period, due to law or contractual obligations or other profit distributions. These reserves are shown in the amounts in the statutory records of the Group and difference arising in preparing the consolidated financials statements in accordance with TFRS are associated with prior years' profit/loss.

As at 31 December 2019 restricted reserves comprised of legal reserves amounting to TL 1,107,177 (31 December 2018: TL 1,107,177).

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

Revaluation Surplus

As of December 31, 2019, the Company's Revaluation Surplus comprises non-current asset revaluation surplus due to the revaluation of property, plant and equipment. The transaction table of the Non-Current Asset Revaluation Surplus is as follows;

16. CAPITAL, RESERVES AND OTHER EQUITIES (continued)

01.01.2019	115,492,865
Non-Current Asset Revaluation Surplus	28,093,444
Deferred Tax Effect (-)	(4,820,181)
31.12.2019	**138,766,128**

<u>Hedging Gains/Losses</u>

	2019	2018
Hedging Gains/Losses	(10,370,082)	-
	(10,370,082)	**-**

The Group identifies cash flow hedging as a hedge against volatility, which results from a particular risk and may affect profit/loss, in cash flows of a registered asset, and a liability or transactions that may be associated with a certain risk and which are likely to occur at the date of the bank loan agreement. The Group presents its gains and losses related to cash flow hedging transactions, which are considered effective, as "other comprehensive revenues or expenses to be reclassified in profit or loss in equity."

To avoid cash flow risk, the Group provides protection against highly probable foreign currency risk arising from export receivables in accordance with TFRS 9 Financial Instruments standard. The start date of hedging has been set as January 2, 2019. Therefore, to ensure protection against the highly probable EUR/TRY exchange rate risk which arises from export receivables and is likely to occur on the euro side on the projected and budgeted dates listed under the hedged items heading, the Group has taken into consideration the overlapping terms of hedged items and the loans in euro.

When the EUR/TRY rate increases, hedged items create long positions in euro in a way that creates more export revenues in Turkish lira. On the other hand, hedging instruments create short positions in euro which generate more debt in Turkish lira when the EUR/TRY rate increases.

As a result, there is an economic relationship between the hedging tool and the hedging item, they offset each other when the EUR/TRY exchange rate fluctuates, creating exchange rate profit/loss.

<u>Other comprehensive income that will not be reclassified to profit or loss</u>

Revaluation gain on property, plant and equipment

The amount of property, plant and equipment that is not recognized in profit or loss is recognized as other comprehensive income. As of 31 December 2019 and 2018, the gains arising from the change in the fair value result from the revaluation of the land, building and machinery equipment of the Company.

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

16. CAPITAL, RESERVES AND OTHER EQUITIES (continued)

As of 31 December 2019, the movements for revaluation increases on tangible fixed assets are as follows:

	2019	2018
Balance at beginning of the period	115,492,865	115,492,865
Gain from change of fair value	23,273,263	--
Balance at closing of the period	**138,766,128**	**115,492,865**

Defined Benefit Plans Remeasurement Fund

As at 31 December 2019, TL 230,364 (31 December 2018: TL 1,197,906) consists of actuarial gain or loss of long term employee benefits recognized as other comprehensive income.

Dividend Payments

Public companies distribute profit in accordance with Profit Share Communique no II-19.1 issued by CMB effective from 1 February 2014. Ventures distribute their profit due to profit distribution policies set by the general assembly in accordance with the related legislation verdicts with a general assembly minute. Within the extent of the icommunique mentioned above a minimal distribution rate is not designated. Companies distribute their profits in accordance with their main agreements of profit distribution policies.

17. REVENUE AND COST OF SALES

	2019	2018
Domestic sales	646,034,743	647,380,648
Foreign sales	111,627,950	86,566,416
Sales returns (-)	(17,420,573)	(16,288,771)
Sales discounts (-)	(137,840,387)	(126,346,982)
Net sales	**602,401,733**	**591,311,311**
Cost of sales (-)	(416,280,757)	(420,347,269)
Gross profit	**186,120,976**	**170,964,042**

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

18. EXPENSES BY NATURE

Selling, Marketing and Distribution Expenses

	2019	2018
Depreciation and amortization expenses	32,643,157	17,570,597
Advertising expenses	26,803,703	21,341,473
Transportation expenses	25,618,123	31,292,287
Personnel expenses	20,308,748	23,696,022
Outsourced Benefits	8,741,478	6,854,324
Energy, water and fuel expenses	1,801,733	1,386,972
Consultancy expenses	1,560,572	1,516,046
Travel expenses	1,460,026	1,795,178
Rent expenses	1,016,066	18,011,155
Maintenance and repair expenses	495,960	576,267
Representation expenses	170,062	302,983
Other	7,095,904	5,872,720
	127,715,532	**130,216,024**

General and Administrative Expenses

	2019	2018
Personnel expenses	10,681,300	14,033,849
Consultancy expenses	4,944,566	4,493,273
Depreciation and amortization expenses	4,428,954	2,328,138
Rent expenses	1,630,633	1,702,540
Energy, water and fuel expenses	784,063	845,319
Travel expenses	781,548	859,035
Office expenses	537,933	970,872
Food expenses	528,507	958,545
Representation expenses	299,817	221,944
Subscription expenses	156,258	256,171
Other	2,860,766	1,907,578
	27,634,345	**28,577,264**

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

18. EXPENSES BY NATURE (continued)

Research and Development Expenses

	2019	2018
Personnel expenses	3,112,856	2,313,155
Depreciation and amortization expenses	444,636	193,743
Material costs	172,081	85,698
Rent expenses	156,440	112,710
Other	728,209	151,953
	4,614,222	**2,857,259**

The functional classification of personnel expenses and depreciation and amortization expenses is as follows:

Personnel Expenses

	2019	2018
Cost of sales	61,273,939	44,050,079
Selling, marketing and distribution expenses	20,308,748	23,696,022
General and administrative expenses	10,681,300	14,033,849
Research and development expenses	3,112,856	2,313,155
	95,376,843	**84,093,105**

Depreciation and Amortization Expenses

	2019	2018
Selling, marketing and distribution expenses	32,643,157	17,570,597
General and administrative expenses	4,428,954	2,328,138
Cost of sales	4,265,445	2,711,351
Research and development expenses	444,636	193,743
	41,782,192	**22,803,829**

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

19. OTHER OPERATING INCOME / (EXPENSES)

Other operating income	**2019**	**2018**
Foreign exchange income	75,648,964	89,194,260
Provisions no longer required (doubtful receivables)	544,868	304,748
Provisions no longer required (litigation)	259,196	-
Financial income	-	7,924,834
Other	5,238,057	9,076,368
	81,691,085	**106,500,210**

Other operating expenses	**2019**	**2018**
Foreign exchange losses	56,111,955	83,241,246
Provision Expenses for Doubtful Receivables	4,267,171	883,244
Provision for litigation costs	2,751,953	-
Late payment expenses	9,561,090	3,051,539
Effect of tax amnesty	-	4,403,050
Other	5,795,300	6,972,884
	78,487,469	**98,551,963**

20. INCOME /EXPENSES FROM INVESTING ACTIVITIES

Income from investing activities	**2019**	**2018**
Gain on sale of fixed assets	--	566,628
	--	**566,628**

Expenses From Investing Activities	**2019**	**2018**
Loss on sale of fixed assets	(716,547)	--
	(716,547)	**--**

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

21. FINANCE INCOME/ (EXPENSES)

Finance income	**2019**	**2018**
Foreign exchange income	63,991,111	127,428,441
Interest income	39,203	65,967
	64,030,314	**127,494,408**

Finance expense	**2019**	**2018**
Foreign exchange losses	(90,534,056)	(180,675,142)
Interest expenses	(85,060,578)	(66,478,408)
	(175,594,634)	**(247,153,550)**

22. TAX ASSETS AND LIABILITIES

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.

Corporate income tax is calculated on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes (carryforwad losses, if any, and if utilized exemptions for investment incentives.

In Turkey, corporate tax rate is 22% as at 31 December 2019 (2018: 22%). According to the Article 91 of the Law numbered 7061 "Legislation on Amendment of Certain Tax Legislation and Other Certain Legislation" which was published on the Official Gazette numbered 30261 on 5 December 2017 and according to the provisional clause 10 added to the Corporate Tax Law numbered 5520; corporate tax rate for the taxation periods of 2018, 2019 and 2020 is amended to 22%, which would later be applied as 20% at the end of these periods. During these periods, Council of Ministers is entitled to decrease the corporate tax rate of 22% to 20%.

As of the period ended December 31, 2019, the advance tax of 22% (2018: 22%) is calculated and paid based on earnings generated for each quarter. With the amendment of the Law, this rate was determined as 22% for the years 2018, 2019 and 2020.

According to the Corporate Tax Law, tax losses shown on the tax return can be deducted from the corporate tax base of the period, provided that it does not exceed 5 years. Declarations and related accounting records can be reviewed by the tax office within five years and tax accounts can be revised.

As at 31 December 2019 and 31 December 2018, assets related to current tax are summarized below:

	31 December 2019	**31 December 2018**
Corporate tax calculated	--	--
Prepaid taxes (-)	684,941	654,410
Current income tax assets	**684,941**	**654,410**

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

22. TAX ASSETS AND LIABILITIES (continued)

Taxation on income in the consolidated statement of profit or loss are as follows:

	31 December 2019	31 December 2018
Current tax expense	--	--
Deferred tax benefit/ (expense)	17,661,587	12,611,764
Tax benefit/ (expense)	**17,661,587**	**12,611,764**

Deferred tax

The Group recognises deferred income tax assets and liabilities based upon temporary differences arising between their financial statements prepared in accordance with TAS 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.

As at 31 December 2019 and 31 December 2018 the breakdown of cumulative temporary differences and the resulting deferred income tax assets/liabilities provided using enacted tax rates are as follows:

	Temporary differences		Deferred income tax assets / (liabilities)	
	31.12.19	**31.12.18**	**31.12.19**	**31.12.18**
Deferred tax asset:				
Carryforward tax losses	160,916,207	114,207,477	32,183,241	22,841,495
Investment incentives	14,965,000	14,695,000	2,993,000	2,993,000
Provision for doubtful receivables	13,650,759	8,952,039	3,003,167	1,969,449
Provision for unused vacation	4,606,796	3,800,626	1,013,495	836,138
Provision for warranty	5,183,949	6,545,968	1,036,790	1,309,194
Provision for employment	2,291,174	2,531,099	458,235	506,220
Provision for litigations	4,763,665	2,270,907	952,733	454,181
Hedging Gains/Losses	13,294,977	--	2,924,895	--
Other	6,390,824	98,376	1,649,374	21,643
			46,214,930	**30,931,320**
Deferred tax liabilities :				
Tangible and intangible assets	152,904,514	(165,557,060)	(31,366,984)	(33,111,412)
Cut-off effect	11,965,853	(7,330,163)	(2,632,488)	(1,612,636)
			(33,999,472)	**(34,724,048)**
Deferred tax asset/ (liabilities), net			**12,215,458**	**(3,792,728)**

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. If tax advantage is probable, deferred tax asset is calculated from unused past year financial losses and investment allowance exceptions.

As at 31 December 2019, the Group has recognized deferred income tax assets amounting to TL 160,916,207 (31 December 2018: TL 114,207,477) over the carry forward tax losses amounting to TL 32,183,241 (31 December 2018: TL 22,841,495) in the consolidated financial statements.

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

22. TAX ASSETS AND LIABILITIES (continued)

Carry forward tax losses:

Movements in deferred income taxes are as follows:

	31 December 2019	**31 December 2018**
2020	--	186,568
2021	20,688,902	20,688,902
2023*	92,307,775	93,332,007
2024	47,919,530	--
	160,916,207	**114,207,477**

(*)The financial loss for the year 2018 was calculated as 93,332,007 Turkish lira on March 11, 2018, but it was calculated as 92,307,775 Turkish lira in the 2018 corporate tax declaration in April 2019. As a result, the financial statement dated December 31, 2019, presents the figure in the corporate tax declaration.

Doğtaş Kelebek Mobilya San. Tic. A.Ş. earned 24,382,417 Turkish lira in profits during the 2017 fiscal year, and the 24,382,417 Turkish lira included in the deferred tax assets calculation in 2013, 2014 and 2015 were offset in 2017.

Movements in deferred income taxes are as follows:

	31 December 2019	**31 December 2018**
1 January	**(3,792,728)**	**(17,284,790)**
Adjustments related to TFRS 9(*)	--	796,429
Charged to statement of profit or loss	17,661,587	12,611,764
Equity Offsetting of PPE Revaluation Surplus	(4,820,181)	--
Charged to statement of other comprehensive income	241,885	83,868
Hedging Gains/Losses	2,924,895	--
	12,215,458	**(3,792,728)**

(*)The Group has begun to apply TFRS 9 standard with an initial application date of 1 January 2018. Comparative information has not been restated in accordance with the transition method used.

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

22. TAX ASSETS AND LIABILITIES (continued)

Carry forward tax losses: (continued)

As of 31 December 2019 and 31 December 2018, the reconciliation of tax expense in the consolidated statement of profit or loss is as follows:

	2019	**2018**
Pre-tax profit / (loss) in the consolidated financial statements	(82,920,374)	(100,290,723)
Tax income calculated using current tax rate	18,242,482	22,063,959
Effect of costs that are not accepted by law	(9,263,354)	(5,130,539)
Loss of rights as a result of tax base increase (**)	--	(5,677,828)
Financial Loss Deferred Tax Effect	9,583,906	--
Other	(901,447)	(522,687)
	17,661,587	**(12,611,764)**

(*)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 31 December 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.

(**)The Group has taken advantage of the tax base increase for the fiscal year 31 December 2016 within the 1 January-31 December 2018 accounting period. Within this context, carryforward tax losses which are deductible from future taxable profits has been reversed by 50%.

23. 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.

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

23. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

	Receivables					
	Trade receivables		Other receivables			
31 December 2019	**Related parties**	**Third parties**	**Related parties**	**Third parties**	**Cash and cash equivalents and credit card receivables**	**Other**
Maximum credit risk exposure at reporting date (A+B+C+D+E)	**1,573,217**	**144,817,509**	--	**10,199,848**	**4,851,208**	--
- Portion of maximum risk covered by guarantees	--	--	--	--	--	--
A. Carrying value of financial assets that are neither past due nor impaired	--	95,323,196	--	10,199,848	4,851,208	--
B. Carrying value of financial assets that the terms renegotiated, otherwise past due or impaired	--	--	--	--	--	--
C. Carrying value of financial assets that are past due but not impaired	1,573,217	49,494,313	--	--	--	--
-Portion under guarantee with collateral	--	--	--	--	--	--
D. Carrying value of impaired assets	--	--	--	--	--	--
-Past due (gross carrying amount)	--	26,464,960	--	732,444	--	--
-Impairment (-)	--	(26,464,960)	--	(732,444)	--	--
E. Off-balance sheet items with credit risk	--	--	--	--	--	--

	Receivables					
	Trade receivables		Other receivables			
31 December 2018	**Related parties**	**Third parties**	**Related parties**	**Third parties**	**Cash and cash equivalents and credit card receivables**	**Other**
Maximum credit risk exposure at reporting date (A+B+C+D+E)	**1,110,954**	**94,804,319**	--	**5,334,946**	**3,558,733**	--
- Portion of maximum risk covered by guarantees	--	--	--	--	--	--
A. Carrying value of financial assets that are neither past due nor impaired	--	51,528,353	--	5,334,946	3,558,733	--
B. Carrying value of financial assets that the terms renegotiated, otherwise past due or impaired	--	--	--	--	--	--
C. Carrying value of financial assets that are past due but not impaired	1,110,954	43,275,966	--	--	--	--
-Portion under guarantee with collateral	--	--	--	--	--	--
D. Carrying value of impaired assets	--	--	--	--	--	--
-Past due (gross carrying amount)	--	23,475,101	--	--	--	--
-Impairment (-)	--	(23,475,101)	--	--	--	--
E. Off-balance sheet items with credit risk	--	--	--	--	--	--

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

23. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

As at 31 December 2019 and 31 December 2018 aging analysis of past due but not impaired related and third party trade receivables are as follows :

	31 December 2019	31 December 2018
Less than 30 days	2,530,018	7,545,116
30 - 119 days	8,790,638	8,025,932
120 - 179 days	4,288,228	1,151,026
180 days and over	33,885,429	26,553,892
	49,494,313	**43,275,966**

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.

Contractual cash flows of the financial liabilities of the Group as at 31 December 2019 and 31 December 2018 are as follows:

31 December 2019	Carrying amount	Contractual cash flows (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Borrowings	410,742,685	487,656,086	91,811,726	124,150,357	271,694,003	--
Trade payables	159,619,471	171,616,271	171,616,271	--	--	--
Other payables (*)	44,465,128	44,465,128	41,654,831	--	2,810,297	--
Leases	39,729,432	61,308,423	3,320,703	9,698,481	48,289,239	--
Total	**654,556,716**	**765,045,908**	**308,403,531**	**133,848,838**	**322,793,539**	**--**

31 December 2018	Carrying amount	Contractual cash flows (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non-derivative financial liabilities						
Borrowings	376,254,496	405,991,691	78,003,853	137,316,499	190,651,340	--
Trade payables	139,747,411	139,747,411	139,747,411	--	--	--
Other payables (*)	58,581,367	58,581,367	57,870,163	--	711,204	--
Total	**574,583,294**	**604,320,489**	**275,621,447**	**137,316,499**	**191,362,544**	**--**

(*)Other payables regarding to due to related parties and third parties are included to other payables.

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

23. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk

The Group is exposed to exchange rate risk arising from the exchange rate changes due to translation of foreign currency denominated assets or liabilities to TL. The foreign exchange rate risk is monitored by analyzing the foreign exchange position.

Foreign currency denominated assets and liabilities as at 31 December 2019 and 31 December 2018 is set out in the table below:

	31 December 2019	**31 December 2018**
USD	5.9402	5.2609
EUR	6.6506	6.0280

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

The Group management plans to apply fair value hedge accounting to protect its trade receivables, trade payables and financial borrowings from the effects of changes in foreign exchange rates. If the Group management performed the related transaction during the accounting period between January 1 - December 31, 2019, the foreign exchange loss presented in the profit or loss statement would be 13,294,977 Turkish lira less, after tax loss would be 13,294,977 Turkish lira less, and the deferred tax would be 2,924,895 Turkish lira more than what was presented.

Currency position

As at 31 December 2019 and 31 December 2018 assets and liabilities denominated in foreign currency held by the Group are as follows:

	31 December 2019	**31 December 2018**
Assets	53,166,181	44,345,742
Liabilities	(266,784,926)	(233,570,711)
Net foreign currency position	**(213,618,745)**	**(189,224,969)**

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

23. FINANCIAL RISK MANAGEMENT (continued)

Market risk

Currency position

	31 December 2019				31 December 2018		
	TL equivalent	**USD**	**EUR**	**Other**	**TL equivalent**	**USD**	**EUR**
1. Trade receivables	52,622,043	3,097,246	5,143,046	2,500	44,046,364	2,205,140	5,382,439
2a. Monetary financial assets, (cash and banks account included)	544,138	67,834	21,230	--	299,378	18,050	33,911
2b. Non-monetary financial assets	--	--	--	--	--	--	--
3. Other	--	--	--	--	--	--	--
4. Current assets (1+2+3)	**53,166,181**	**3,165,080**	**5,164,276**	**2,500**	**44,345,742**	**2,223,190**	**5,416,350**
5. Trade receivables	--	--	--	--	--	--	--
6a. Monetary financial assets	--	--	--	--	--	--	--
6b. Non-monetary financial assets	--	--	--	--	--	--	--
7. Other	--	--	--	--	--	--	--
8. Non-current assets (5+6+7)	--	--	--	--	--	--	--
9. Total assets (4+8)	**53,166,181**	**3,165,080**	**5,164,276**	**2,500**	**44,345,742**	**2,223,190**	**5,416,350**
10. Trade payables	(3,991,420)	(336,474)	(299,627)	--	(13,025,186)	--	(2,160,781)
11. Financial liabilities	(124,747,530)	(3,701,977)	(15,450,794)	--	(21,073,507)	--	(3,495,937)
12a. Other monetary liabilities	(2,855,365)	(337,330)	(128,042)	--	(2,092,372)	(296,468)	(88,368)
12b. Other non-monetary liabilities	--	--	--	--	--	--	--
13. Current liabilities (10+11+12)	**(131,594,315)**	**(4,375,781)**	**(15,878,463)**	--	**(36,191,066)**	**(296,468)**	**(5,745,086)**
14. Trade payables	--	--	--	--	--	--	--
15. Financial liabilities	(135,190,611)	(1,875,248)	(18,652,642)	--	(197,379,645)	--	(32,743,803)
16 a. Other monetary liabilities	--	--	--	--	--	--	--
16 b. Other non-monetary liabilities	--	--	--	--	--	--	--
17. Long-term liabilities (14+15+16)	**(135,190,611)**	**(1,875,248)**	**(18,652,642)**	--	**(197,379,645)**	--	**(32,743,803)**
18. Total liabilities (13+17)	**(266,784,926)**	**(6,251,029)**	**(34,531,105)**	--	**(233,570,711)**	**(296,468)**	**(38,488,889)**
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 monetary assets/(liabilities) position (9+18+19)	(213,618,745)	(3,085,949)	(29,366,829)	2,500	(189,224,969)	1,926,723	(33,072,539)
21. Net foreign currency asset / (liability) position of monetary items (=1+2a+3+5+6a+10+11+12a+14+15+16a)	(213,618,745)	(3,085,949)	(29,366,829)	2,500	(189,224,969)	1,926,723	(33,072,539)
22. Fair value of derivative instruments used in foreign currency hedge							
23. Export	**110,456,663**	**12,781,045**	**5,858,838**	--	**70,862,222**	**6,532,997**	**6,053,878**
24. Import	**847,442**	--	**133,439**	--	**5,899,546**	**15,045**	**965,560**

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

23. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Currency risk (continued)

The Group's mainly currency position consists of bank borrowings and trade payables. Foreign currency denominated borrowings are stated in Note 4.

The Group's profit before tax, when all other variables remain constant, (due to changes in monetary assets and liabilities) USD,EUR and GBP exchange rates and changes in sensitivity table is as follows:

31 December 2019	**Profit/Loss**	
	Appreciation of foreign currency	**Depreciation of foreign currency**
Assumption of devaluation/appreciation by 10% of USD against TL:		
1- Net USD asset / liability	(1,833,115)	1,833,115
2- USD risk averse portion (-)	--	--
3- USD net effect (1+2)	**(1,833,115)**	**1,833,115**
Assumption of devaluation/appreciation by 10% of EUR against TL:		
4- Net EUR asset / liability	(19,530,703)	19,530,703
5- EUR risk averse portion (-)	--	--
6- EUR net effect (4+5)	**(19,530,703)**	**19,530,703**
Assumption of devaluation/appreciation by 10% of GBP against TL:		
7- Net GBP asset / liability	1,944	(1,944)
8- GBP risk averse portion (-)	--	--
9- GBP net effect (7+8)	**1,944**	**(1,944)**
Total (3+6+9)	**(21,361,874)**	**21,361,874**

31 December 2018	**Profit/Loss**	
	Appreciation of foreign currency	**Depreciation of foreign currency**
Assumption of devaluation/appreciation by 10% of USD against TL:		
1- Net USD asset / liability	1,013,629	(1,013,629)
2- USD risk averse portion (-)	--	--
3- USD net effect (1+2)	**1,013,629**	**(1,013,629)**
Assumption of devaluation/appreciation by 10% of EUR against TL:		
4- Net EUR asset / liability	(19,936,126)	19,936,126
5- EUR risk averse portion (-)	--	--
6- EUR net effect (4+5)	**(19,936,126)**	**19,936,126**
Total (3+6)	**(18,922,497)**	**18,922,497**

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

23. FINANCIAL RISK MANAGEMENT (continued)

Classification and fair values of financial instruments

31.12.2019

	The financial assets recognized at amortized cost	The financial liabilities recognized at amortized cost	Fair Value through other comprehensive income	Fair value through profit or loss	Book value	Note
Financial Assets						
Cash and cash equivalents	4,862,454	-	-	-	4,862,454	3
Financial investments	-	-	9,469,958	-	9,469,958	11
Trade receivables	146,390,726	-	-	-	146,390,726	5
Trade receivables from related parties	1,573,217	-	-	-	1,573,217	6
Other receivables	10,199,848	-	-	-	10,199,848	7
	163,026,245	**-**	**9,469,958**	**-**	**172,496,203**	
Financial Liabilities						
Borrowings	-	450,472,117	-	-	450,472,117	4
Trade payables	-	159,619,471	-	-	159,619,471	5
	-	**610,091,588**	**-**	**-**	**610,091,588**	

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

23. FINANCIAL RISK MANAGEMENT (continued)

31.12.2018

	The financial assets recognized at amortized cost	The financial liabilities recognized at amortized cost	Fair Value through other comprehensive income	Fair value through profit or loss	Book value	Note
Financial Assets						
Cash and cash equivalents	3,566,888	-	-	-	3,566,888	3
Financial investments	-	-	9,469,958	-	9,469,958	11
Trade receivables	95,915,273	-	-	-	95,915,273	5
Trade receivables from related parties	1,110,954	-	-	-	1,110,954	6
Other receivables	5,334,946	-	-	-	5,334,946	7
	105,928,060	**-**	**9,469,958**	**-**	**115,398,018**	
Financial Liabilities						
Borrowings	-	450,472,117	-	-	450,472,117	4
Trade payables	-	159,619,471	-	-	159,619,471	5
Trade payables to third parties	-	-	-	-	-	
	-	**610,091,588**	**-**	**-**	**610,091,588**	

Fair value is the amount that an asset could be sold or a liability settled in an orderly transaction between knowledgeable and willing parties based on market conditions.

The Company has determined the estimated fair values of financial instruments using current market information and appropriate valuation methods. However, assessing market information and estimating fair values requires interpretation and reasoning. As a result, the estimates presented herein cannot be considered indicative of the amounts the Company can achieve in a current transaction.

It is anticipated that the fair value of financial assets, including cash and cash equivalents, recognized at their cost value, will be close to their book value since they are short-term and that the potential losses are insignificant.

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

23. FINANCIAL RISK MANAGEMENT (continued)

Market prices are taken as the basis for determining the fair value of debt securities and share certificates:

31.12.2019	Level 1	Level 2	Level 3	Total
Financial Investments	-	-	9,469,958	9,469,958
31.12.2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Investments	-	-	9,469,958	9,469,958

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

Level 1: Financial assets and liabilities are valued at the stock market prices at which identical assets and liabilities are traded from on the active market.

Level 2: Financial assets and liabilities are valued based on inputs that are directly or indirectly observable in the market, apart from the market price of the relevant asset or liability stated in the Level 1.

Level 3: Financial assets and liabilities are valued from inputs that are not based on observable data in the market which are used to determine the fair value of assets or liabilities.

24. ADDITIONAL DISCLOSURES THAT ARE RQUIRED UNDER TFRS

EBITDA, are not defined by TFRS. 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 TFRS are disclosed by the Group management separately for a better understanding and measurement of the sustainable performance of the Group.

	2019	2018
Net profit / (loss) for the period	(65,258,787)	(89,219,008)
Tax income / expense	(17,661,587)	(12,611,764)
Financial income	(64,030,314)	(127,494,408)
Financial expense	175,594,634	247,153,550
Depreciation and amortization expenses (Note 18)	41,782,192	22,803,829
Provision for employment termination benefits (Note 14)	1,592,641	589,918
Provision for unused vacation liabilities	806,170	88,804
EBITDA	**72,824,949**	**41,310,921**

25. EARNINGS / (LOSS) PER SHARE

	2019	2018
Weighted average number of shares in issue	26,101,497,248	20,906,976,700
Net income or (loss) attributable to the owners of the parent	(65,258,787)	(89,219,008)
Earnings / (Losses) per share	**(0.0025)**	**(0.0043)**
Earnings / (losses) per diluted shares	**(0.0025)**	**(0.0043)**

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

25. EARNINGS / (LOSS) PER SHARE (continued)

(*) The average number of shares in 2019 was calculated as 26,101,497,248 in accordance with the TAS 33 Earnings Per Share Standard, following the capital increase by the Company on February 19, 2019.

26. EVENTS AFTER THE REPORTING PERIOD

As announced on the share purchase and sale statement made by Doğanlar Yatırım Holding A.Ş. on the Public Disclosure Platform on December 31, 2019, the shares of Doğanlar Yatırım Holding with a total nominal value of 1,607,392 Turkish lira have been sold at Borsa İstanbul A.Ş.

Following the transaction, the latest shareholding structure of the Company is as follows:

	After transaction	
	%	**TL**
Trading on Borsa Istanbul	47.40	127,534,884
Doğanlar Yatırım Holding A.Ş.	16.82	45,250,000
Davut Doğan	5.96	16,047,503
Adnan Doğan	5.96	16,047,484
Şadan Doğan	5.96	16,047,474
İsmail Doğan	5.96	16,047,474
İlhan Doğan	5.96	16,047,474
Murat Doğan	5.96	16,047,474
	100.00	**269,069,767**

The Group management applied for and obtained the Investment Incentive Certificate from the Ministry of Economy's General Directorate of Incentive Implementation and Foreign Investment.

Investment Incentive Certificate No. 508540 obtained for the Çanakkale Biga Production Facility covers an investment of 10,291,619 Turkish lira for machinery investment, building construction and other expenses.

Investment Incentive Certificate No. 508366 obtained for the Düzce Production Facility covers an investment of 5,918,597 Turkish lira for machinery investment, building construction and other expenses.

"The Decree on the Amendment to the Decree on Determining Value Added Tax Rates for Products and Services" published in the Official Gazette numbered 30996 and dated January 2, 2020 (first duplicate), set the VAT rate as 8 percent for the furniture industry.