BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION INTO ENGLISH
OF FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2019 TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT

This report includes 5 pages of independent auditor's report
and 86 pages of financial statements together with their explanatory notes

KPMG Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
İş Kuleleri Kule 3 Kat:2-9
Levent 34330 İstanbul
Tel +90 212 316 6000
Fax +90 212 316 6060
www.kpmg.com.tr

CONVENIENCE TRANSLATION OF THE INDEPENDENT AUDITOR'S REPORT ORIGINALLY PREPARED AND ISSUED IN TURKISH TO ENGLISH

To the Shareholders of Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret Anonim Şirketi

A) Audit of the Financial Statements

Opinion

We have audited the financial statements of Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret Anonim Şirketi ("the Company"), which comprise the statement of financial position as at 31 December 2019, the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards ("TFRS").

Basis for Opinion

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

Key Audit Matters

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

Revenue recognition

Refer to Note 2.4.2 to the financial statements for summary of significant accounting policies and significant accounting estimates and assumptions for revenue recognition.

The key audit matter	How the matter was addressed in our audit
Revenue of the Company for the year ended 31 December 2019 mainly comprised of the sale of tires. The Company recognize revenue when the Company fulfill the performance obligation by transferring the committed product or service or the Company recognize revenue throughout the period. The recognition of revenue in the period when the product is sold is related to the sales contract of the product and depends on the proper evaluation of the control over the terms of the contract. Since sales contracts may be complex, it requires significant judgment to be made when determining the specific recognition basis for each case. Therefore, there is a risk that revenue may not be recognized in the proper period or amount for those may be returned from the delivered products or those whose invoices have not yet been issued to the customer. Due to the nature of the Company's activities and the size of its operations, the revenue recognition was identified as one of the key audit matters, as proper revenue recognition requires significant management judgment.	We have performed the following audit procedures to be responsive to this area: - Assessing the design, implementation and operating effectiveness of the key internal controls over sales to collection with support of information risk management specialists. - Assessing of the compliance of the accounting policies applied by the Company with TFRS 15 by examining the contracts selected on a sample basis from the grouped sales contracts. - Inspecting, on a sampling basis, relevant underlying documentation for revenue recognition in order to assess whether the revenue recognition are properly accounted for in the appropriate financial period and in compliance with the accounting policies. - Obtaining confirmation letters for trade receivables, on a sample basis, and performing reconciliations of account balances received in the confirmation letters and financial statements. - Performing analytical procedures to identify any unusual transactions. - Inspecting, on a sampling basis, relevant underlying documentation for sales returns accepted subsequent to the year end in order to assess whether the sales returns are properly accounted for in the appropriate financial period. - Testing customer rebates and discounts, on a sample basis, in order to assess whether customer rebates are properly accounted for in the appropriate financial period. - Assessing the appropriateness and adequacy of the disclosures in the financial statements of the Company.

Recoverability of trade receivables

Refer to Note 2.4.18 iv) and 2.5 to the financial statements for summary of significant accounting policies and significant accounting estimates for valuation of recoverability of trade receivables.

The key audit matter	How the matter was addressed in our audit
At 31 December 2019, the Company's gross trade receivables amounts to TRY 827.164.223, against which a provision for doubtful receivables of TRY 158.031.419 has been recorded. Bad debt provision is accounted based on management's estimate of the expected credit losses to be incurred by taking into account the aging of trade receivables, guarantees received, payment history and credit ratings of the customers. All these estimations are highly sensitive to future market conditions. For these reasons, recoverability of trade receivables is a significant audit area.	We have performed the following audit procedures to be responsive to this area: - assessing the design, implementation and operating effectiveness of the Company's key internal controls over the processes of credit control, collection of trade receivables and follow up of overdue balances - assessing the classification of trade receivables in the trade receivable ageing report by comparison with sales invoices and other underlying documentation on a sample basis - Obtaining confirmation letters for trade receivables and performing reconciliations of account balances received in the confirmation letters and financial statements. -Controlling bad debt provision by comparing legal follow up presented at lawyer letters. - Investigation and discussion with the management about any dispute or litigation process related to collection of trade receivables. - Evaluation of the assumptions used in the model developed for the expected credit loss calculation. - Assessing the quality of guarantees and credit rating reports used in determination of recoverability of trade receivables, on a sample basis and evaluation of the value of guarantees according to cash convertibility. - Assessing of adequacy of disclosures made in the financial statements of the Company with the disclosures required in accordance with TFRS 9.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements
Responsibilities of auditors in an audit are as follows:
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with standards on auditing issued by the CMB and Standards on Auditing issued by POA 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 financial statements.
As part of an audit in accordance with the standards on auditing issued by the CMB and Standards on Auditing issued by POA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

B) Other Legal and Regulatory Requirements

1) Pursuant to the fourth paragraph of Article 398 of Turkish Commercial Code ("TCC") numbered 6102; the Independent Auditor's Report on System and Committee of Early Identification of Risks is presented to the Board of Directors of the Company on 18 February 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 between 1 January 2019 and 31 December 2019, the Company's bookkeeping activities and financial statements are not in compliance with TCC and provisions of the Company's articles of association in relation to financial reporting.

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

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi

A member firm of KPMG International Cooperative

Hakan Ölekli, SMMM
Partner
18 February 2020

CONTENTS **PAGE**

BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş.
AUDITED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

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

		Audited	
ASSETS	**Notes**	**Current Period 31 December 2019**	**Prior Period 31 December 2018**
Current Assets			
Cash and Cash Equivalents	3	792.595.257	284.147.243
Financial Investments	3	101.696.721	-
Trade Receivables	6	621.298.796	720.156.163
Trade Receivables From Related Parties	25	28.776.114	22.626.750
Trade Receivables From Third Parties		592.522.682	697.529.413
Other Receivables	7	9.199.672	18.450.759
Other Receivables From Related Parties	25	65.474	1.122.453
Other Receivables From Third Parties		9.134.198	17.328.306
Derivative Financial Instruments	5	1.230.322	8.141.075
Inventories	8	634.680.918	571.623.768
Prepaid Expenses	9	28.348.024	26.183.166
Current Tax Assets	23	343.021	1.289.020
Other Current Assets	16	36.393.838	19.858.741
Total Current Assets		**2.225.786.569**	**1.649.849.935**
Non-Current Assets			
Trade Receivables	6	47.834.008	39.224.425
Other Receivables	7	649.576	152.524
Other Receivables From Related Parties	25	282.623	-
Other Receivables From Third Parties		366.953	152.524
Derivative Financial Instruments	5	1.040.401.405	1.015.154.266
Property, Plant and Equipment	10	1.826.642.872	1.753.497.711
Right of Use Assets	11	14.697.167	-
Intangible Assets	12	80.616.690	66.017.302
Prepaid Expenses	9	36.430.810	33.656.241
Deferred Tax Assets	23	6.631.015	-
Total Non-Current Assets		**3.053.903.543**	**2.907.702.469**
TOTAL ASSETS		**5.279.690.112**	**4.557.552.404**

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

BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş.
AUDITED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

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

		Audited	
LIABILITIES	**Notes**	**Current Period 31 December 2019**	**Prior Period 31 December 2018**
Current Liabilities			
Short-term Borrowings	4	288.803.357	81.600.368
Short-term Portion of Long Term Borrowings	4	951.900.414	260.001.723
Trade Payables	6	1.010.752.812	702.125.132
Trade Payables to Related Parties	25	465.912.150	273.713.280
Trade Payables to Third Parties		544.840.662	428.411.852
Payables Related to Employee Benefits	15	27.853.913	22.529.743
Other Payables	7	13.507.248	13.130.604
Other Payables to Related Parties	25	1.315.811	1.002.399
Other Payables to Third Parties		12.191.437	12.128.205
Derivative Financial Instruments	5	1.063.961	50.688.422
Deferred Income	9	15.079.172	5.952.724
Short-term Provisions		42.019.098	32.598.242
Short-term Provisions For Employee Benefits	15	28.075.958	18.179.204
Other Short-term Provisions	13	13.943.140	14.419.038
Other current liabilities		294	-
Total Current Liabilities		**2.350.980.269**	**1.168.626.958**
Non-Current Liabilities			
Long-term Borrowings	4	1.936.566.966	2.331.913.269
Trade Payables	6	12.412.854	52.648.185
Trade Payables to Related Parties	25	12.412.854	52.648.185
Deferred Income	9	380.765	84.168
Long-term Provisions	15	82.307.274	58.629.146
Deferred Tax Liabilities	23	-	24.707.425
Total Non-Current Liabilities		**2.031.667.859**	**2.467.982.193**
Total Liabilities		**4.382.648.128**	**3.636.609.151**
EQUITY			
Share Capital	17	305.116.875	305.116.875
Adjustment to Share Capital	17	54.985.701	54.985.701
Share Premium	17	4.903	4.903
Accumulated Other Comprehensive Income or Expenses That Will Be Reclassified to Profit or Loss			
Hedging Reserve (Losses) /Gains	17	25.359.530	153.684.550
Accumulated Other Comprehensive Income or Expenses That Will Not Be Reclassified to Profit or Loss			
Actuarial (Losses)/Gains	17	(4.013.009)	4.715.983
Restricted Reserves	17	124.224.838	121.876.991
Other Reserves	17	200.582	84.376
Retained Earnings	17	277.149.271	184.732.497
Net Income For The Period		114.013.293	95.741.377
Total Equity		**897.041.984**	**920.943.253**
TOTAL LIABILITIES AND EQUITY		**5.279.690.112**	**4.557.552.404**

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

BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş.
AUDITED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2019

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

		Audited	
	Notes	**Current Period 1 January- 31 December 2019**	**Prior Period 1 January- 31 December 2018**
Sales	18	3.558.329.305	2.998.775.696
Cost of Sales (-)	18-19	(2.718.740.169)	(2.232.016.139)
GROSS PROFIT		**839.589.136**	**766.759.557**
General Administrative Expenses (-)	19	(114.729.823)	(99.810.172)
Marketing Expenses (-)	19	(302.251.240)	(269.954.617)
Research and Development Expenses (-)	19	(1.371.339)	(1.038.898)
Impairment Loss on Trade Receivables (-)	19	635.347	(52.853.548)
Other Operating Income	20	111.996.510	258.318.862
Other Operating Expenses (-)	20	(151.077.332)	(172.070.652)
OPERATING PROFIT		**382.791.259**	**429.350.532**
Income From Investing Activities	21	131.580	258.229
Expenses From Investing Activities (-)	21	(2.073.154)	(307.592)
PROFIT BEFORE FINANCIAL EXPENSES		**380.849.685**	**429.301.169**
Financing Income	22	49.445.184	10.467.244
Financing Expenses (-)	22	(313.883.516)	(345.701.505)
PROFIT BEFORE TAX		**116.411.353**	**94.066.908**
Taxation on Income		**(2.398.060)**	**1.674.469**
Current Tax Expense (-)	23	(421.891)	(685.180)
Deferred Tax Income / (Expense)	23	(1.976.169)	2.359.649
PROFIT FOR THE PERIOD		**114.013.293**	**95.741.377**
Earnings per share	24	**0,355**	**0,298**
Diluted earnings per share	24	**0,355**	**0,298**

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

BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş.
AUDITED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

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

		Audited	
	Notes	Current Period 1 January- 31 December 2019	Prior Period 1 January- 31 December 2018
PROFIT FOR THE PERIOD		**114.013.293**	**95.741.377**
OTHER COMPREHENSIVE INCOME:			
Items that will never be reclassified to profit or loss		**(8.728.992)**	**(1.768.521)**
Actuarial (Losses)/Gains	15	(10.911.240)	(2.210.651)
Other Comprehensive Income or Expenses That Will Not Be Reclassified to Profit or (Loss)			
Deferred Tax Income / (Expense)	23	2.182.248	442.130
Items that are or may be reclassified to profit or loss		**(128.325.020)**	**145.297.244**
Hedging Reserve Gains/ (Losses)		(159.213.192)	180.431.660
Other Comprehensive Income or Expenses That Will Be Reclassified to Profit or (Loss)			
Deferred Tax Income / (Expense)	23	30.888.172	(35.134.416)
OTHER COMPREHENSIVE INCOME / (EXPENSE)		**(137.054.012)**	**143.528.723**
TOTAL COMPREHENSIVE INCOME / (EXPENSE)		**(23.040.719)**	**239.270.100**

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

BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş.
AUDITED STATEMENT OF CHANGES IN EQUITY AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019

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

				Other Comprehensive Income or Expenses That Will Be Reclassified to Profit or Loss	Other Comprehensive Income or Expenses That Will Not Be Reclassified to Profit or Loss			Retained Earnings		
	Share Capital	**Adjustment to Share Capital**	**Share Premium**	**Hedging Reserve Gains/ (Losses)**	**Actuarial (Losses)/ Gains**	**Restricted Reserves**	**Other Reserves**	**Retained Earnings**	**Net Income For The Period**	**Shareholders' Equity**
Balance at 1 January 2018 (Beginning of the Period)	**305.116.875**	**54.985.701**	**4.903**	**8.387.306**	**6.484.504**	**117.202.932**	**-**	**96.094.307**	**95.203.492**	**683.480.020**
Adjustments related with changes in accounting policies										
Net effect of TFRS 9 policy change	-	-	-	-	-	-	-	(1.891.243)	-	(1.891.243)
Balance at 1 January 2018 (Restated Beginning of the Period)	**305.116.875**	**54.985.701**	**4.903**	**8.387.306**	**6.484.504**	**117.202.932**	**-**	**94.203.064**	**95.203.492**	**681.588.777**
Transfers	-	-	-	-	-	4.674.059	-	90.529.433	(95.203.492)	-
Other	-	-	-	-	-	-	84.376	-	-	84.376
Total Comprehensive Income	-	-	-	145.297.244	(1.768.521)	-	-	-	95.741.377	239.270.100
Balances at 31 December 2018 (End of the Period)	**305.116.875**	**54.985.701**	**4.903**	**153.684.550**	**4.715.983**	**121.876.991**	**84.376**	**184.732.497**	**95.741.377**	**920.943.253**
Balance at 1 January 2019 (Beginning of the Period)	**305.116.875**	**54.985.701**	**4.903**	**153.684.550**	**4.715.983**	**121.876.991**	**84.376**	**184.732.497**	**95.741.377**	**920.943.253**
Adjustments related with changes in accounting policies (Note 2.2)										
Net effect of TFRS 16 policy change	-	-	-	-	-	-	-	(976.756)	-	(976.756)
Balance at 1 January 2019 (Restated Beginning of the Period)	**305.116.875**	**54.985.701**	**4.903**	**153.684.550**	**4.715.983**	**121.876.991**	**84.376**	**183.755.741**	**95.741.377**	**919.966.497**
Transfers	-	-	-	-	-	2.347.847	-	93.393.530	(95.741.377)	-
Other	-	-	-	-	-	-	116.206	-	-	116.206
Total Comprehensive Income	-	-	-	(128.325.020)	(8.728.992)	-	-	-	114.013.293	(23.040.719)
Balances at 31 December 2019 (End of the Period)	**305.116.875**	**54.985.701**	**4.903**	**25.359.530**	**(4.013.009)**	**124.224.838**	**200.582**	**277.149.271**	**114.013.293**	**897.041.984**

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

BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş.
AUDITED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Notes	Audited Current Period 1 January- 31 December 2019	Audited Prior Period 1 January- 31 December 2018
Net Profit For The Period		**114.013.293**	**95.741.377**
Adjustments to Reconcile Profit For The Period		**588.936.745**	**395.676.803**
Adjustments Related to Depreciation and Amortization Expenses	19	189.493.236	158.313.312
Provisions for Employee Benefits	15	23.677.378	12.019.206
Adjustments Related to Retirement Pay Provision	15	15.462.685	10.031.780
Lawsuit Provision	13	5.212.117	4.607.197
Adjustment Related to Other Provisions	13	288.927	3.891.919
Adjustments Related to Doubtful Receivables	6	557.426	56.487.865
Interest Income	22	(10.671.926)	(10.467.244)
Interest Expense	22	311.159.791	277.789.399
Unrealized Foreign Exchange Losses / (Gains)		18.731.764	(17.613.578)
(Gains) / Losses From Derivative Financial Instruments	5	57.768.014	(172.282.242)
Adjustments Related to Tax Expense / (Income)	23	2.398.060	(1.674.469)
Losses / (Gain) on Sale of Property, Plant and Equipment and Intangible Assets, Net	21	694.196	49.363
Impairment on Property, Plant and Equipment and Intangible Assets	21	1.247.378	-
Impairment on Inventories	8	2.124.507	1.511.174
Finance expense accruals from credit purchases (net)	6	(10.138.818)	(9.353.117)
Finance income accruals from credit sales (net)	6	15.641.000	15.900.639
Adjustments Related to Other Items that Cause Cash Flows from Investing or Financing Activities		(34.708.990)	66.465.599
Changes In Working Capital		**286.854.518**	**9.964.882**
Adjustments Related to Increase / Decreases in Trade Receivables		72.368.793	(11.667.791)
Adjustments Related to Increase / Decreases in Inventory		(45.418.966)	(158.332.615)
Adjustments Related to Increase / Decreases in Other Receivables Related to Operations		(7.719.411)	(1.002.658)
Adjustments Related to Increase / Decreases in Prepaid Expenses		(5.192.784)	(13.439.582)
Adjustments Related to Increase / Decreases in Trade Payables		257.860.253	213.373.403
Adjustments Related to Increase / Decreases in Deferred Income		9.289.329	(1.470.960)
Adjustments Related to Increase / Decreases in Employee Benefits Payables		5.324.170	(16.330.245)
Adjustments Related to Increase / Decreases in Other Payables Related to Operations		343.134	(1.164.670)
Cash Flows From Operating Activities		**(78.816.687)**	**163.048.171**
Collection from doubtful receivables	6	1.436.669	2.530.405
Interest Received	22	10.671.926	10.467.244
Taxes Paid / Reimbursed		524.108	(1.743.547)
Paid / Reversed Provisions	13-15	(17.376.546)	(738.702)
Paid / Reversed Lawsuit Provisions	13	(2.381.020)	(680.004)
Retirement Benefits Paid	15	(2.695.797)	(1.981.498)
Cash Inflows / (Outflows) from Financial Derivatives		(68.996.027)	155.194.273
A. NET CASH GENERATED FROM OPERATING ACTIVITIES		**910.987.869**	**664.431.233**
Proceeds From Sale of Property, Plant and Equipment and Intangible Assets		1.587.057	703.776
Acquisition of Property, Plant and Equipment and Intangible Assets	10-12	(267.764.982)	(228.973.652)
B. CASH FLOWS FROM INVESTING ACTIVITIES		**(266.177.925)**	**(228.269.876)**
Proceeds from / Repayment of Borrowings, (net)		245.989.514	1.433.195
Interest Paid	4	(313.076.688)	(280.135.634)
Other Cash Inflows / (Outflows)		(66.871.525)	(66.381.223)
Cash Outflows from Lease Liabilities		(6.679.191)	-
Cash inflows from Factoring	4	2.935.416	-
C. CASH FLOWS FROM FINANCING ACTIVITIES		**(137.702.474)**	**(345.083.662)**
Net Increase / (Decrease) in Cash and Cash Equivalents before translation effect of foreign currency (A+B+C)		507.107.470	91.077.695
D. Translation Effect Of Foreign Currency on Cash and Cash Equivalents		1.340.544	(1.446.506)
Net Increase / (Decrease) in Cash and Cash Equivalents (A+B+C+D)		508.448.014	89.631.189
Cash and Cash Equivalents at the beginning of the period		284.147.243	194.516.054
Cash and Cash Equivalents at the end of the period		**792.595.257**	**284.147.243**

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

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

1. ORGANIZATION AND NATURE OF OPERATIONS OF THE COMPANY

Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş. (“Brisa” or “Company”) was established in 1974 as a subsidiary of Hacı Ömer Sabancı Holding A.Ş.

Brisa is primarily engaged in manufacturing, marketing and selling vehicle tires in Turkey. In 1988, the Company entered into a license agreement with Bridgestone Corporation for the purpose of manufacturing and selling Bridgestone tires.

The control of the Company is jointly held by H.Ö. Sabancı Holding A.Ş. and Bridgestone Corporation.

The Company’s employee headcount with indefinite-term employment contract is 2.874 (31 December 2018: 2.797). This number includes 2.266 employees who are subject to Collective Bargaining Agreement terms (31 December 2018: 2.208), and 601 employees who are not subject to these terms (31 December 2018: 579). There are 7 foreign employees (31 December 2018: 10). In addition, there are 1 employee who is subject to definite-term employment contracts (31 December 2018: 1)

Brisa is registered with the Capital Markets Board (“CMB”) and its shares have been quoted in Borsa İstanbul A.Ş. since 1986. As of December 31, 2019, and 31 December 2018, the Company has a 10.24% shareholding in Borsa İstanbul. As at 31 December 2019 and 31 December 2018, the main shareholders and their respective shareholding in the Company are as follows.

	31 December 2019	31 December 2018
	%	%
Hacı Ömer Sabancı Holding A.Ş.	43,63	43,63
Bridgestone Corporation	43,63	43,63
Other	12,74	12,74
Total	**100,00**	**100,00**

The address of the registered office of the Company is as follows:

Küçük Çamlıca Mahallesi Şehit İsmail Moray Sokak
Temsa Sitesi No:2/1 Üsküdar, İstanbul

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Statement of compliance with TFRS

The accompanying financial statements are prepared based in accordance with Turkish Financial Reporting Standards (“TFRS”) published by Public Oversight Accounting and Auditing Standards Authority (“POA”) as set out in the Communiqué numbered II-14.1 “Communiqué on Principles of Financial Reporting in Capital Markets” published in the Official Gazette numbered 28676 on 13 June 2013. TFRSs consist of standards and interpretations which are published as Turkish Accounting Standards (“TAS”), Turkish Financial Reporting Standards, interpretations of TAS and interpretations of TFRS.

Financial statements are presented in accordance with the TFRS taxonomy developed based on the Illustrative Financial Statements and User Guide published in the Official Gazette numbered 28676 on 7 June 2019.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.1 Basis of Presentation (Cont’d)

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

The financial statements for the period 1 Janaury-31 December 2019 have been approved for issue by the Board of Directors on 18 February 2020 and signed on behalf of the Board of Directors by Ahmet Cevdet Alemdar, General Manager, and Reşat Oruç, Chief Financial Officer. The General Assembly of the Company has the right to amend and relevant regulatory bodies have the right to request the amendment of these financial statements.

The financial statements have been prepared on the historical cost basis except for derivative financial assets and liabilities that are measured at fair value. See Note 27 for fair value disclosures.

<u>Functional currency</u>

The financial statements of the Company are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The results and financial position are expressed in Turkish Lira (“TL”), which is the functional currency of the Company and the reporting currency for the financial statements

<u>Preparation of financial statements in hyperinflationary periods</u>

Based on CMB’s resolution No: 11/367 issued on 17 March 2005, companies operating in Turkey and preparing their financial statements in accordance with the POA Accounting Standards are not subject to inflation accounting effective from 1 January 2005. Therefore, starting from January 2005, TAS 29 “Financial Reporting in Hyperinflationary Economies” is not applied in the accompanying financial statements.

2.2 Changes in Significant Accounting Policies

The accounting policy changes arising from the first time application of a new standard are applied retrospectively or prospectively in accordance with the transitional options, if any. Changes to which no transition clauses are included, material changes in accounting policies or voluntary accounting errors are applied retrospectively and prior period financial statements are restated. If changes in accounting estimates are related to only one period, they are applied in the current period that estimation change made. If changes in accounting estimates are related to future period, they are applied both in the current period when the amendment is made and for the future periods, both in the current period and in the future.

As the financial statements of 31 December 2019 are prepared, there is no change in accounting policies except for the initial implementation of TFRS 16.

The Company initially applied TFRS 16 Leases from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Company’s financial statements

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.2 Changes in Significant Accounting Policies (Cont'd)

TFRS 16 introduced a single model of lease accounting for lessee. The Company, as a lessee, shows the right of use of the underlying asset and the lease liabilities representing the lease payments it is obliged to pay in its financial statements. From the perspective of a lessor, lease accounting is the same as previous accounting policies.

The Company applied TFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

a. Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 "*Determining whether an Arrangement contains a Lease*". The Company now assesses whether a contract is or contains a lease based on the definition of a lease. When the right to control the use of the asset defined in accordance with a contract under TFRS 16 is transferred for a certain period of time, this contract is a lease agreement or includes a lease transaction.

On transition to TFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied TFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under TAS 17 and IFRIC 4 were not reassessed for whether there is a lease under TFRS 16. Therefore, the definition of a lease under TFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019

b. As a lessee

The Company leases property and vehicles.

The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under TFRS 16, the Company recognizes right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

i. Leases classified as operating leases under TAS 17

Previously, the Company classified property and vehicle leases as operating leases under TAS 17.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

– Their carrying amount as if TFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application or

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.2 Changes in Significant Accounting Policies (Cont’d)

b. As a lessee *(Cont’d)*

– An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: The Company applied this approach to all other leases.

The Company has tested its right-of-use assets for impairment on the date of transition to TFRS 16 and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used a number of practical expedients when applying TFRS 16 to leases previously classified as operating leases under TAS 17. In particular, the Company:

– Did not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application 1 January 2019.

– Did not recognize right-of-use assets and liabilities for leases of low value assets such as forklift, crane, IT equipment which have less than 12 months leasing period. The Company recognize the lease payments associated with these leases as expenses in a linear method during the lease term.

– Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

– Used hindsight when determining the lease term.

c. As a lessor

The Company is not required to make any adjustments on transition to TFRS 16 for leases in which it acts as a lessor.

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.2 Changes in Significant Accounting Policies (Cont’d)

d. Impact on financial statements

i. Impact on transition

On transition to TFRS 16, the Company recognized additional right-of-use assets, and additional lease liabilities, recognizing the difference in retained earnings. The impact on transition is summarized below.

	1 January 2019
Right of use assets	6.341.588
Prepaid rent	(440.194)
Deferred tax assets	244.189
Total Assets	**6.145.583**
Lease liabilities	7.122.339
Retained earnings	(976.756)
Total liabilities	**6.145.583**

The Company shows the net effect of right of use asset and lease liabilities under equity amounting to TL 976.756 including deferred tax effect as of 1 January 2019.

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate for Turkish Lira applied is 15,76% as of 1 January 2019.

	1 January 2019
Lease liabilities discounted using the incremental borrowing rate at 1 January 2019	7.552.040
– Recognition exemption for leases of low-value assets	396.294
– Recognition exemption for leases with less than 12 months of lease term at transition	33.407
– Extension options reasonably certain to be exercised	-
Lease liabilities recognized at 1 January 2019	**7.122.339**

ii. Current period effect

Initially as a result of TFRS 16, as at 31 December 2019, the Company recognized right of use assets amounting to TL 14.697.167 and lease liabilities amounting to TL 15.180.779 with respect to leases which were previously classified as operational leases.

Additionally, the Company recognized depreciation and interest expense instead of operational rent expense related with lease contracts under TFRS 16. For the year ended 31 December 2019, the Company has depreciation expense amounting to TL 4.571.510 and interest expense amounting to TL 1.760.694 for these leases.

For the year ended 31 December 2019, the effect of TFRS 16 on EBITDA is TL 6.332.204.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.3 Changes and Errors in the Accounting Estimates

Changes in accounting estimates should be applied prospectively, if only for a period in which the change in the current period. If it relates to future periods, they are recognized to prospectively both in the current period and in the future period considering the impact on the profit of loss. There are no important changes in the accounting policies for the current period. Identified accounting errors are corrected in financial statements retrospectively (Note 2.4.23).

2.4 Summary of Significant Accounting Policies

2.4.1 Standards and interpretations issued but not yet effective as of 31 December 2019

Standards issued but not yet effective and not early adopted

A number of new standards, interpretations of and amendments to existing standards are not effective at reporting date and earlier application is permitted; however, the Company has not early adopted are as follows.

The revised Conceptual Framework (2018 version)

The revised Conceptual Framework issued on 27 October 2018 by the POA. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the POA in developing TFRSs. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no TFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the POA with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no TFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.4 Summary of Significant Accounting Policies (Cont’d)

2.4.1 Standards and interpretations issued but not yet effective as of 31 December 2019 (Cont’d)

Standards issued but not yet effective and not early adopted (Cont’d)

Amendments to TAS 1 and TAS 8 - Definition of Material

In June 2019 POA issued Definition of Material (Amendments to TAS 1 and TAS 8). The amendments clarify and align the definition of ‘material’ and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. The amended “definition of material “was added to the important definition and it was stated that this expression could lead to similar results by not giving and giving misstating information. In addition, with this amendment, the terminology used in its definition of material has been aligned with the terminology used in the Conceptual Framework for Financial Reporting (Version 2018). Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Company does not expect that application of these amendments to TAS 1 and TAS 8 will have significant impact on its financial statements.

Amendments to TFRS 3 - Definition of a Business

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. The IASB has issued amendments to IFRS 3 Business Combinations to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. In May 2019, POA has also published the Definition of Business (Amendments to TFRS 3). With these amendments confirmed that a business shall include inputs and a process, and clarified that the process must be substantive and the inputs and process must together significantly contribute to creating outputs. It narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a concentration test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

The Company does not expect that application of these amendments to TFRS 3 will have significant impact on its financial statements.

Interest Rate Benchmark Reform (Amendments to TFRS 9, TAS 39 and TFRS 7)

Interest Rate Benchmark Reform by UMSK, which amended TFRS 9, TAS 39 and TFRS 7 issued in September 2019, also published by POA at 14 December 2019. In 2018, UMSK identified two groups of accounting issues that could affect financial reporting.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.4 Summary of Significant Accounting Policies (Cont'd)

2.4.1 Standards and interpretations issued but not yet effective as of 31 December 2019 (Cont'd)

Standards issued but not yet effective and not early adopted (Cont'd)

Interest Rate Benchmark Reform (Amendments to TFRS 9, TAS 39 and TFRS 7) (Cont'd)

The pre-replacement issues to be more urgent and decided to address the following hedge accounting requirements as a priority in the first phase of the project:

- The highly probable requirement,
- Prospective assessments,
- Retrospective assessment; and
- Separately identifiable risk components.

All other hedge accounting requirements remain unchanged. A company shall apply the exceptions to all hedging relationships directly affected by interest rate benchmark reform. The Company shall apply these amendments for annual periods beginning on or after 1 January 2020 with earlier application permitted.

2.4.2 Revenue

TFRS 15 requires revenue recognition for all contracts with customers to follow the five-step approach to revenue recognition.

Step 1: Identifying the contract

A contract exists only if it is legally enforceable, the collection of the consideration is probable, the rights to goods and services and payment terms can be identified, the contract has commercial substance; and the contract is approved and the parties are committed to their obligations.

If either contracts were negotiated as a single commercial package, or consideration in one contract depends on the other contract or goods or services (or some of the goods or services) are a single performance obligation the Company accounts the contracts as a single contract.

Step 2: Identifying the performance obligations

The Company defines ‘performance obligation’ as a unit of account for revenue recognition. The Company assesses the goods or services promised in a contract with a customer and identifies as:

(a) a performance obligation either a good or service that is distinct

(b) or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

If the Company can define a good or service in the contract separately from other commitments in the contract and enables the customer to benefit from the good or service seperately or in combination with other resources ready to use, it defines it as a different good or service.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.4 Summary of Significant Accounting Policies (Cont'd)

2.4.2 Revenue (Cont'd)

Step 2: Identifying the performance obligations (Cont'd)

A contract may contain promises to deliver a series of distinct goods or services that are substantially the same. At contract inception, an entity determines whether the series of goods or services is a single performance obligation.

Step 3: Determining the transaction price

In order to determine the transaction price, the Company assesses how much consideration it expects to be entitled to by fulfilling the contract. In arriving at the assessment, the Company considers variable elements of consideration, as well as the existence of a significant financing component.

Significant financing component

The Company revises the promised amount of consideration for the effect of a significant financing component to the amount that reflects what the cash selling price of the promised good or service.

Variable consideration

The Company identifies items such as price concessions, incentives, performance bonuses, completion bonuses, price adjustment clauses, penalties, discounts, credits, or similar items may result in variable consideration if there is any in a customer contract.

Step 4: Allocating the transaction price to performance obligations

If distinct goods or services are delivered under a single arrangement, then the consideration is allocated based on relative stand-alone selling prices of the distinct goods or services (performance obligations). If directly observable stand-alone selling prices are not available, the total consideration in the service contracts is allocated based on their expected cost plus a margin.

Step 5: Recognition of revenue

The Company recognizes revenue over-time if any of the following conditions is met:

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

- The customer controls the asset as the entity creates or enhances it, or

- Company's performance does not create an asset for which the entity has a use; and alternative there is a right to payment for performance to date.

For each performance obligation that is satisfied over time, an entity selects a single measure of progress, which depicts the transfer of control of the goods or services to the customer. The Company uses a method that measures the work performed reliably.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.4 Summary of Significant Accounting Policies (Cont’d)

2.4.2 Revenue (Cont’d)

Step 5: Recognition of revenue (Cont’d)

The Company uses cost incurred to measure the progress towards to completion of the project where the input method is used and uses units transferred to measure the progress towards to completion of the project where the output method is used.

If a performance obligation is not satisfied over time, then the Company recognize revenue at the point in time at which it transfers control of the good or service to the customer.

The Company recognizes a provision in accordance with TAS 37 “Provisions, Contingent Liabilities and Contingent Assets” when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits.

Contract modifications

The Company recognizes a contract modification 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 are distinct, then the entity accounts for the modification as if it were a termination of the existing contract and the creation of a new contract. If the modification to the contract does not add distinct 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.

Revenues are recognized at the time of transfer of control. 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.

2.4.3 Inventories

Inventories are valued at the lower of cost or net realizable value. Cost elements included in inventories are expenditure incurred in acquiring the inventories, production or conversion costs, foreign currency differences of derivative financial instruments designed as hedging instrument and other costs incurred in bringing them to their existing location and condition. The cost of unproduced finished goods and semi-finished goods includes general overhead expenses in accordance with normal production capacity. The unit cost of inventories is determined on the moving weighted average basis (Note 8). Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

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 (Cont’d)

2.4 Summary of Significant Accounting Policies (Cont’d)

2.4.4 Property, plant and equipment

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses (Note 10). Items of property, plant and equipment are depreciated for assets already available or built by the Company on the day they are completed and ready for use. Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss.

The leased assets are depreciated over the lease term and the shorter of the useful life if the Company does not acquire ownership of the leased asset at the end of the lease with reasonable certainty. Land is not depreciated. The estimated useful lives of property, plant and equipment are as follows:

	Useful life (Year)
Land and land improvement	10-20
Buildings	4-50
Machinery and equipment	3-20
Motor vehicles	5-10
Furniture and fixtures	5-10

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

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

Normal maintenance and repair expenditures on property, plant and equipment are recognized as expenses. Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

Large-scale maintenance and repair expenses, including replacement parts changes and labor costs, are capitalized and depreciated over the average lifetime between the next large-scale maintenance.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.4 Summary of Significant Accounting Policies (Cont’d)

2.4.5 Intangible assets

Intangible assets include acquired rights, software, special selling rights, licenses, capitalized development costs and other identifiable rights. Intangible assets are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method (Note 12).

	Useful life (Year)
Capitalized development costs	5-10
Rights	5
Other intangible assets	3-10

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss.

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

Research and development

Expenditure on research activities is recognized in profit or loss as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.4 Summary of Significant Accounting Policies (Cont'd)

2.4.6 Cash and cash equivalents

Cash and cash equivalents are carried at cost in the balance sheet. Cash and cash equivalents comprise cash in hand, bank deposits and highly liquid investments, whose maturity at the time of purchase is less than three months (Note 3). In cases where cash and cash equivalents are not impaired for certain reasons, the company calculates impairment using the expected credit loss model.

The Company presents time deposits over 3 months' maturity as financial investments in its statement of financial position.

2.4.7 Trade Receivables

Trade receivables that are created by the Company by way of providing goods or services directly to a debtor are carried at amortized cost. Short-term receivables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant. A credit risk provision for trade receivables is established if there is objective evidence that the Company will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception. In cases where the trade receivables are not impaired for certain reasons, the Company measures the expected credit loss provision from an amount equal to lifetime expected credit losses. In calculating the expected credit losses, the dealer and customer rating model is taken into consideration which includes past credit loss experiences and the Company's future forecasts.

Those with maturities greater than 1 year are classified as non-current assets. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited as income (Note 6).

2.4.8 Maturity difference finance charges / (expenses)

Maturity difference charges /(expenses) represents the income / (expenses) that are resulting from credit purchase or sales. These income / (expenses) are considered as income and expenses which result from credit purchase or sales during the period and included in other operating income / (expense) throughout the maturity period.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.4 Summary of Significant Accounting Policies (Cont’d)

2.4.9 Taxes on income

Income tax expense consists of the sum of period tax and deferred tax. Income tax is recognized in profit or loss other than those associated with business mergers or directly with equity or other comprehensive income.

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

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax assets are recognized if it is probable that taxable profit will be generated in the future for tax advantages and deductible temporary differences, which will be sufficient to offset them in the future. Taxable profit is determined according to the Company's business plans. Deferred tax assets are reviewed at each reporting date and likely future taxable profits deferred tax asset recognized on previously not being limited to the amount that would be recognized.

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.4 Summary of Significant Accounting Policies (Cont’d)

2.4.9 Taxes on income (Cont’d)

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

<u>Current and deferred tax for the period</u>

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss whether in other comprehensive income or directly in equity.

2.4.10 Borrowings and borrowing costs

Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective interest method. Any difference between proceeds, net of transaction costs, and the redemption value is recognized in the income statement as financial expense over the period of the borrowings.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale. All other borrowing costs are charged to the income statement when they are incurred (Note 4).

2.4.11 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method (Note 6).

Those with maturities greater than 1 year are classified as non-current liabilities.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.4 Summary of Significant Accounting Policies (Cont'd)

2.4.12 Foreign currency transactions

The financial statements are presented in Turkish Lira ("TL"), which is the functional currency and the presentation currency of the Company.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss statement except when deferred in other comprehensive income according to effectiveness as qualifying cash flow hedges.

Foreign currency differences related with borrowings and cash and cash equivalents are recognized in the financial income / (expense), whereas foreign currency differences related with other monetary assets and liabilities are recognized in the other operating income/(expense) in the statement of profit or loss.

2.4.13 Provisions, contingent assets and liabilities

Provisions are recognized when the Company 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.

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

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.4 Summary of Significant Accounting Policies (Cont’d)

2.4.14 Employee Benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Vacation pay liability

In accordance with the existing labor law in Turkey, the Company is required to pay to the employee, whose employment is terminated due to any reasons, the wage of the deserved and unused vacation days over the gross prevailing wage and other benefits subject to contract at the date the contract is terminated.. Unused leave provision is the earned and unused vacation rights of its employees of the Company, and measured on an undiscounted basis and are recognised in profit or loss as the related service is provided.

Long-term employee benefits

In accordance with the current labor law in Turkey, the Company is obliged to pay certain amounts to employees who have completed 1 year who quit their jobs for reasons such as retirement, military service or death. The provision for severance pay represents the present value of the Company's estimated probable future liability in the event of the retirement of its employees. The provision for severance pay is calculated as if all employees would be subject to such payment and is reflected in the financial statements on an accrual basis. The provision for severance pay is calculated according to the severance pay ceiling announced by the government. As explained in Note 15, the management of the Company used some estimates in the calculation of the provision for severance pay.

All actuarial gains and losses are accounted under the other comprehensive income.

2.4.15 Share Capital

Ordinary shares are classified as equity. Dividends payable are recognized 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.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.4 Summary of Significant Accounting Policies (Cont’d)

2.4.16 Earnings per share

Earnings per share disclosed in the income statement are determined by dividing net income excluding net income attributable to redeemed shares by the weighted average number of shares outstanding during the period concerned.

In Turkey, companies can increase their share capital through a pro-rata distribution of shares (“bonus shares”) to existing shareholders from retained earnings and inflation adjustment to equity. For the purpose of earnings per share computations, the weighted average number of shares in existence during the period has been adjusted in respect of bonus share issues without a corresponding change in resources, by giving them retroactive effect for the period in which they were issued and each earlier period as if the event had occurred at the beginning of the earliest period reported (Note 24).

2.4.17 Related Parties

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

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

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

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

For the purpose of these financial statements, shareholders, the Group companies of Hacı Ömer Sabancı Holding A.Ş. and Bridgestone Corporation 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 Company assigned its key management as board of directors and the members of the executive board (Note 25).

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.4 Summary of Significant Accounting Policies (Cont’d)

2.4.18 Financial Instruments

i. Recognition and initial measurement

Trade receivables are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company 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 is initially measured at fair value plus, for an item not at FVTPL, 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

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

Financial assets are not reclassified subsequent to their initial recognition unless the Company 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.

A debt investment is measured at FVOCI 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 achieved by both collecting contractual cash flows and selling financial assets; 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.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment’s fair value in OCI. This election is made on an investment-by-investment basis.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.4 Summary of Significant Accounting Policies (Cont’d)

2.4.18 Financial Instruments (Cont’d)

ii. Classification and subsequent measurement (Cont’d)

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

– the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management’s strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;

– how the performance of the portfolio is evaluated and reported to the Company’s management;

– the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

– how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company’s continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.4 Summary of Significant Accounting Policies (Cont’d)

2.4.18 Financial Instruments (Cont’d)

ii. Classification and subsequent measurement (Cont’d)

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest:

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company’s claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement and gains and losses:

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss. However, see part (v) for derivatives designated as hedging instruments.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.4 Summary of Significant Accounting Policies (Cont’d)

2.4.18 Financial Instruments (Cont’d)

ii. Classification and subsequent measurement (Cont’d)

Financial assets – Subsequent measurement and gains and losses (Cont’d):

Financial assets at amortized cost

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortized cost or FVTPL.

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss. See part (v) for financial liabilities designated as hedging instruments.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.4 Summary of Significant Accounting Policies (Cont’d)

2.4.18 Financial Instruments (Cont’d)

iii. Derecognition

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognized in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

iv. Financial assets and liabilities offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.4 Summary of Significant Accounting Policies (Cont'd)

2.4.18 Financial Instruments (Cont'd)

v. Derivative financial instruments and hedge accounting

TFRS 9 also includes new hedge accounting rules that are intended to align hedge accounting with risk management practices. TFRS 9 provides the option of deferring the adoption of TFRS 9's hedge accounting in the selection of accounting policies and the option to continue the application of the requirements in TAS 39 'hedge accounting. In this context, the Company will continue to apply the requirements of TAS 39 hedge accounting.

The derivative financial instruments of the Company consist of foreign exchange forward transactions, commodity swap and cross currency swap transactions. The Company has designated their derivatives ("hedging instrument") to hedge its cash flows on foreign purchases ("hedged item") and its cash flow exposures arising from variable rate foreign currency denominated bank borrowings ("hedged item").

Derivatives are initially recognized at fair value on the date the derivative contract is entered into and are subsequently measured at their respective fair values. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Company documents, at the inception of the transaction the relationship between hedging instrument and hedged item, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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

The gain or loss relating to the ineffective portions of cross currency swaps and forward transactions that are designated for hedging is recognized in the statement of profit or loss. Amounts previously recognized in other comprehensive income are transferred to the statement of profit or loss in the periods when the hedged item affects profit or loss (when the forecast transaction that is hedged takes place). The gain or loss relating to the effective portions of cross currency swap transactions is recognized in other comprehensive income (Note 5).

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.4 Summary of Significant Accounting Policies (Cont'd)

2.4.18 Financial Instruments (Cont'd)

vi. Impairment

Non-Derivative Financial instruments and contract assets

The Company recognizes loss allowances for expected credit losses (ECL) on:

– financial assets measured at amortized cost and contract assets;

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

– bank balances where credit risk (i.e., risk of default arising over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECL is the portion representing expected credit losses arising from possible default on the financial instrument within 12 months after the reporting date.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.4 Summary of Significant Accounting Policies (Cont’d)

2.4.18 Financial Instruments (Cont’d)

vi. Impairment (Cont’d)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

The Company calculated the ECLs based on previous year's credit losses experience, current financial performance analysis of customers and future expectations. The company has computed ECLs rate separately for domestic customers and dealers. For export customers and other private customers, the Company evaluates separately and provides a provision if necessary. The Company has applied the doubtful receivable provision methodology by taking into consideration the net receivable after deducting existing collaterals, payment performance, the credit risk score of the creditors evaluated by independent credit rating firms.

The cash shortfalls are the difference between the cash flows to be incurred and the cash flows expected to be received by the entity. As the amount and timing of payments are considered in expected credit losses, a credit loss occurs even if the entity expects to receive the full payment in the contract with the maturity specified in the contract.

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence of a financial asset's impairment of credit includes the following observable data:

- the debtor's or issuer's significant financial difficulty;
- breach of contract, such as default of debtor or the maturity of financial instrument 181 days past;
- restructuring of a loan or advance, depending on circumstances which the company may not consider otherwise
- the possibility of bankruptcy or financial restructuring of the debtor, or
- the disappearance of the active market of a securities asset due to financial difficulties.

Presentation of allowance for ECL

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.4 Summary of Significant Accounting Policies (Cont’d)

2.4.18 Financial Instruments (Cont’d)

vi. Impairment (Cont’d)

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

For customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off.

However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company’s procedures for recovery of amounts due.

2.4.19 Reporting of cash flows

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 Company’s principal revenue-producing activities.

Cash flows from investing activities are the cash flows from Company’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 Company’s changes in the size and composition of the contributed equity and borrowings.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.4 Summary of Significant Accounting Policies (Cont’d)

2.4.19 Reporting of cash flows (Cont’d)

Cash and cash equivalents include cash on hand, bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash within 3 months (Note 3).

2.4.20 Provision for warranty expenses

Warranty expenses are recorded as a result of repair and maintenance expenses within two years for products sold under the scope of the warranty terms.

2.4.21 Events after the reporting period

Events after the reporting period comprise any event between the reporting date and the date of authorization of the financial statements, even if the event after balance sheet date occurred subsequent to an announcement on the Company’s profit or following any financial information that are released.

2.4.22 Impairment on non-financial assets

At each reporting date, the Company reviews the carrying assets excluding inventories and deferred tax assets to determine whether there is any impairment indication in its assets. The recoverable amount of the assets, if any, is measured so that the amount of impairment can be determined. Where the recoverable amount of an asset cannot be measured, the Company measures the recoverable amount of the cash-generating unit associated with the asset. If a reasonable and consistent allocation basis is determined, the Company assets are distributed to the cash-generating units. Where this is not possible, the Company assets are distributed to the smallest cash-generating units for the purpose of establishing a reasonable and consistent allocation basis.

When the recoverable amount of an asset (or cash-generating unit) is less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Where the related asset is not measured at revalued amount, the impairment loss is recognized directly in profit or loss. In this case the impairment loss is regarded as revaluation value decrease.

When the impairment loss is expected to be reversed in subsequent periods, the carrying amount of the asset (or the related cash-generating unit) is increased to correspond to the revised estimate for the recoverable amount. The increased carrying amount should not exceed the carrying amount of the asset (or the related cash-generating unit) in the event that the impairment loss for the asset was not allocated in the previous periods. The reversal of an impairment loss is recognized directly in profit or loss unless the asset is measured at a revalued amount.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.4 Summary of Significant Accounting Policies (Cont’d)

2.4.23 Comparatives and restatement of prior period financial statements

The financial statements of the Company are prepared comparatively with the previous period in order to enable the determination of the financial situation and performance trends. In order to comply with the presentation of the current period financial statements, comparative information is reclassified when necessary and significant differences are disclosed.

Credit card commission expenses amounting to TL 82.623 classified under marketing expenses for the year ending 31 December 2018 has been reclassified to finance expenses.

Factoring payable due to supplier finance amounting to TL 4.542.774 classified under trade payables to related parties for the year ending 31 December 2018 has been reclassified to short-term borrowings.

Factoring payable due to supplier finance amounting to TL 6.874.039 classified under trade payables to third parties for the year ending 31 December 2018 has been reclassified to short-term borrowings.

Significant accounting estimates and assumptions used for the preparation of the financial statements as of 31 December 2019 are consistent with the significant accounting estimates and assumptions used for the preparation of the financial statements as of 31 December 2018.

2.4.24 Finance income and finance expenses

Finance income consists of bank deposit interest income, which forms part of the cycle used for financing purposes, and foreign exchange difference income on financial assets and liabilities (other than trade receivables and liabilities). Finance expenses include interest expenses on bank loans, early collection commission expenses on credit cards, and foreign exchange difference expenses on financial assets and liabilities (other than trade receivables and payables). Borrowing costs, which cannot be directly related to the acquisition, construction or production of an asset, are accounted for in profit or loss using the effective interest rate.

Foreign exchange difference income and expenses on financial assets and liabilities (other than trade receivables and liabilities) are reported as net in financing income or financing expenses according to the net position of foreign exchange difference movements. Foreign exchange difference and rediscount income on trade receivables and liabilities are reported in other income from operating activities and foreign exchange difference and rediscount expenses are reported in other expenses from operating activities. Interest income is recognized using the effective interest method. An entity that calculates interest income by applying an effective interest method to the amortized cost of the financial asset in a reporting period, in the event that the credit risk in the financial instrument improves in a way that the financial asset is no longer deemed to be impaired as a credit-impairment (if the improvement in the borrower's credit rating increase) calculates the interest income in the next reporting periods by applying the effective interest rate to the gross book value.

2.4.25 Reporting by segments

The Company carries out sales of radial, passenger cars, vans, minibuses, trucks, bus tires and back tires, as well as radial and conventional tires for heavy equipment and various tube-lights, columns, and mixtures. The Company's field of activity, the nature and economic characteristics of the products, the production processes, the classification of the customers according to their risks and the methods used to distribute the products are similar. For this reason, in line with the management approach, the Company's operations are considered as a single business segment and the results of the Company, determination of the resources to be allocated to this activity, and the performance of these activities are evaluated in this framework.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.5 Critical Accounting Judgments Estimates and Assumptions

The preparation of financial statements in conformity with TFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Useful lives of tangible and intangible assets

Tangible and intangible assets are stated at historical cost less depreciation and net of any impairment, if any. Depreciation on tangible assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Useful lives and depreciation method depend on best estimates of management, are reviewed in each financial period and necessary corrections are made (Note 10 - 12).

Provision for doubtful receivables

The Company calculates the provision for impairment of trade receivables to cover the estimated losses resulting from the inability of its customers to make required payments and in accordance with the expected credit losses. The Company measures loss allowances at an amount equal to lifetime ECLs. The provision for doubtful trade receivables computed by considering the past payment performance and the future estimations for the rating of dealers and customers. (Note 6).

Fair value of derivatives and other financial instruments

The fair value of derivative financial instruments which are not traded in an active market is determined using valuation techniques based on market rates and expected yields. Fair value of non-derivative financial instruments is determined based on the present value of future principal and interest cash flows. These cash flows are calculated based on the discount rate prevailing at the reporting date (Note 5).

Other provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made (Note 13).

Deferred tax assets

As at 31 December 2019, the Company estimates that the Company will be able to benefit from reduced corporate tax rates in the future over the scope of the incentive investment documents. The Company recognized deferred tax assets for the foreseeable three years since it is not predictable how long the benefit will be utilized. (Note 23).

Net realizable value

In accordance with the accounting policy stated in Note 2.4, inventories are valued at the lower of cost or net realizable value. Net realizable value is the amount obtained by deducting the estimated cost of completion from the estimated selling price and the estimated cost of sales required to realize the sale in the ordinary course of business.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.5 Critical Accounting Judgments Estimates and Assumptions (Cont’d)

Internally-generated intangible assets

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated. The technical feasibility of completing the intangible asset so that it will be available for use or sale, the intention to complete the intangible asset and use or sell it, the ability to use or sell the intangible asset, how the intangible asset will generate probable future economic benefits, the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset and the ability to measure reliably the expenditure attributable to the intangible asset during its development. The amount initially recognized for internally-generated intangible assets is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above.

Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred. In the current year, the Company management re-examined the probable economic benefits of the internally generated intangible assets. The Company management expects the projects to continue as expected and relying on the analysis performed, expects them to create similar economic benefits.

The management is sure about being able to recover the carrying values of the assets even though their economic benefits decrease. The aforementioned situation is followed up closely by the Company management who will make the necessary adjustments if required by the future market transactions.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Company’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as ‘active’ if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.5 Critical Accounting Judgments Estimates and Assumptions (Cont’d)

Fair Value Measurement (Cont’d)

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The assessment team regularly reviews unobserved data and assessment corrections. If third party information, for example the tool is used to measure the fair value of quoted prices or pricing services, if the evaluation team of the evaluation results of the obtained from third party’s fair valuation hierarchy of the fair valuation of the requirements of the standard should be classified at what level, including to support the outcome of compliance reviews.

Important evaluation problems are reported to the Company's Audit Committee.

When measuring the fair value of an asset or liability, the company uses as much market-observable information as possible. Fair valuation is classified to different levels in the fair valuation hierarchy determined based on the information used in the valuation techniques mentioned below.

Level 1: with registered (uncorrected) price in active markets for identical assets or liabilities;

Level 2: observable data directly (through prices) or indirectly (derived from prices) in terms of assets or liabilities, excluding the registered prices included in Level 1; and

Level 3: Data that is not based on observable market data (data that is not observable) regarding assets or liabilities.

If an asset or a liability is used to measure the fair value of the fair valuation hierarchy of information that can be classified to a different level if this fair valuation fair valuation hierarchy that is significant to the whole measurement of smallest information to the same level of are classified.

The Company accounts for transfers between levels in the fair valuation hierarchy at the end of the reporting period when the change occurs.

Further information on the assumptions used when performing fair valuation measurements is stated in the notes below:

Note 5 – Derivative Financial Instruments

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

3. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash on hand	205	-
Cash at banks	792.595.052	284.147.243
Demand deposits	38.293.603	17.081.772
Time deposits	453.336.103	40.828.030
Credit card slip receivables	300.965.346	226.237.441
	792.595.257	**284.147.243**

Nature and extent of the risks on cash and cash equivalents are described at Note 26. Demand deposits comprise collections from direct debiting system (DDS) and cheques kept under current accounts based on agreements made with banks. Credit card slip receivables contain POS balances which have less than three months' maturities.

As of 31 December 2019, and 31 December 2018, the Company's time deposits are as follows:

Currency	Original Amount	Maturity	Interest rate	Amount (TL)
TL	73.500.000	2 January 2020	10,00%	73.520.137
US Dollar ("USD")	425.544	22 January 2020	2,00%	2.529.896
US Dollar	4.000.000	31 January 2020	2,20%	23.762.232
US Dollar	36.000.000	31 January 2020	2,20%	213.860.090
EUR	21.000.000	31 January 2020	0,30%	139.663.748
				453.336.103

Currency	Original Amount	Maturity	Interest rate	Amount (TL)
US Dollar	316.340	7 January 2019	4,50%	1.669.773
US Dollar	6.100.000	21 January 2019	4,75%	32.154.134
TL	7.000.000	2 January2019	21,50%	7.004.123
				40.828.030

The Company holds bank time deposits amounting to EUR 21.000.000 and US Dollar 36.000.000 in order to mitigate risks arising from Euro and US Dollar denominated short term balance sheet foreign currency position and next periods' cash flow positions as of 31 December 2019 (31 December 2018: none). The Company makes TL selling/EUR buying and TL selling/USD buying forward contracts so as to mitigate these risks when cost advantage exists.

The Company recognizes time deposits over 3 months' maturity as financial investments. As of 31 December 2019 the Company's time deposits over 3 months' maturity are as follows

Currency	Original Amount	Maturity	Interest rate	Amount (TL)
TL	53.000.000	30 April 2020	11,50%	53.967.131
TL	47.000.000	30 July 2020	11,50%	47.729.590
				101.696.721

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

4. FINANCIAL LIABILITIES

	31 December 2019		31 December 2018	
	Weighted Average effective interest rate %	**TL**	**Weighted Average effective interest rate %**	**TL**
Short-term TL bank borrowings(*)	13,26	272.591.359	23,60	70.183.555
Short-term factoring liabilities		14.352.229		11.416.813
Short-term lease liabilities		1.859.769		-
Short-term borrowings		**288.803.357**		**81.600.368**
Short-term portion of long-term TL bank borrowings	12,72	79.196.597	12,50	41.980.590
Short-term portion of long-term USD bank borrowings (**)	3,41	866.773.943	3,72	218.021.133
Short-term portion of long-term lease liabilities		5.929.874		-
		951.900.414		**260.001.723**
Total short-term borrowings		**1.240.703.771**		**341.602.091**
Long-term TL bank borrowings	12,66	321.858.673	12,78	228.196.079
Long-term USD bank borrowings (**)	3,41	1.605.457.388	3,95	2.103.717.190
Long-term lease liabilities		9.250.905		-
Total long-term borrowings		**1.936.566.966**		**2.331.913.269**
Total financial liabilities		**3.177.270.737**		**2.673.515.360**

The net financial debt computation of the Company is given below:

	31 December 2019	**31 December 2018**
Total bank borrowings	3.160.230.189	2.673.515.360
Less: Valuation difference from US Dollar borrowings for hedging	(1.008.865.166)	(776.642.688)
Less: Cash and cash equivalents	(792.595.257)	(284.147.243)
Less: Financial investments – time deposits over 3 months maturity	(101.696.721)	-
Net financial debt	**1.257.073.045**	**1.612.725.429**

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

4. FINANCIAL LIABILITIES (Cont’d)

Bank Borrowings

(*) The Company started to hold Euro and US Dollar denominated bank time deposits after taking short term loan amounting to TL 347.444.000 in 2019 February as explained in Note 3, in order to mitigate risks arising from Euro and US Dollar denominated short term balance sheet foreign currency position and next periods’ cash flow positions.

(**) The Company entered into cross currency and interest rate swaps to mitigate floating interest rate and foreign currency exchange risks for the long-term foreign currency denominated borrowings when they were received. TL values of the Company’s foreign currency denominated borrowings may increase or decrease as a result of exchange rates fluctuations, in return the fair value of cross currency swaps are shown under derivative assets.

As of 31 December 2019, accumulated foreign exchange loss due to bank borrowings designed for hedge accounting amounting to TL 1.008.865.166 (31 December 2018: TL 776.642.688), fair value of cross currency and interest rate swap contracts designed for hedge accounting amounting to TL 1.040.401.405 and recognized as derivative asset (31 December 2018: TL 1.015.154.266) (Note 5), equity hedging reserve amounting to TL 25.229.771 (31 December 2018: TL 190.809.263), and deferred tax liability amounting to TL 6.306.468 (31 December 2018: TL 47.702.315) were recognized in the financial statements.

Loan commission and expenses amounting to TL 3.922.288 and TL 8.577.527 were net off with the borrowings in the short-term portion of long-term borrowings, and in the long-term bank borrowings, respectively (31 December 2018 respectively TL 3.922.288 and TL 12.499.815).

As of 31 December 2019, and 31 December 2018, all of the bank borrowings consist of unsecured bank loans.

	31 December 2019	31 December 2018
Opening balance	2.673.515.360	2.029.994.661
Proceeds from / (Repayment of) Borrowings	264.053.805	1.433.195
Interest expense accounted under profit or loss	311.159.791	277.789.399
Capitalized interest expense at tangible assets	9.395.990	8.466.079
Interest paid	(313.076.688)	(280.135.634)
Foreign currency exchange differences	230.847.437	645.052.938
Other	1.375.042	(9.085.278)
Closing balance	**3.177.270.737**	**2.673.515.360**

The Company has fulfilled its financial commitments as of 31 December 2019.

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

4. FINANCIAL LIABILITIES (Cont'd)

Repayment schedules of borrowings are summarized below:

	31 December 2019	31 December 2018
2019	-	341.602.091
2020	1.240.703.770	794.337.589
2021	671.911.144	542.937.327
2022	647.125.244	479.157.465
2023	449.119.590	374.088.800
2024	145.579.154	122.495.941
2025	22.831.835	18.896.147
	3.177.270.737	**2.673.515.360**

<u>*US Dollar denominated loans*</u>

The information of the Company's US Dollar denominated significant loans and related cross currency and interest rate swap contracts which aim to mitigate variable interest rate and foreign currency risks is summarized below:

US Dollar denominated loans					Loan information after swaps			
Opening date	**US Dollar Amount**	**Duration**	**Interest Payments**	**Interest Rate**	**TL Amount**	**Interest Payments**	**Interest Rate**	**US Dollar FX Rate**
29 May 2015	*15.625.000*	*7 years maturity – 3 years no principal payment*	*Once every 6 months*	*USLibor +1,000*	*41.406.250*	*Once every 6 months*	*%11,25*	*2,6500*
4 February 2016	*20.312.500*	*7 years maturity – 3 years no principal payment*	*Once every 3 months*	*USLibor+ 0,8615*	*60.064.063*	*Once every 3 months*	*%12,70*	*2,9570*
4 March 2016	*20.312.500*	*7 years maturity – 3 years no principal payment*	*Once every 3 months*	*USLibor+ 0,8692*	*60.064.063*	*Once every 3 months*	*%12,70*	*2,9570*
26 August 2016	*80.000.000*	*7 years maturity – 3 years no principal payment*	*Once every 3 months*	*USLibor+ 1,30*	*237.600.000*	*Once every 3 months*	*%10,72*	*2,9700*
12 December 2016	*80.000.000*	*7 years maturity – 3 years no principal payment*	*Once every 6 months*	*USLibor+ 1,90*	*308.920.000*	*Once every 6 months*	*%13,965*	*3,8615*
29 March 2017	*40.000.000*	*7 years maturity – 3 years no principal payment*	*Once every 3 months*	*USLibor+ 1,30*	*144.960.000*	*Once every 3 months*	*%12,22*	*3,6240*
12 June 2017	*40.000.000*	*7 years maturity – 3 years no principal payment*	*Once every 3 months*	*USLibor+ 1,30*	*140.560.000*	*Once every 3 months*	*%11,895*	*3,5140*
18 October 2017	*60.000.000*	*3 years maturity*	*Once every 3 months*	*USLibor+ 1,15*	*218.400.000*	*Once every 3 months*	*%12,3835*	*3,6400*
15 December 2017	*30.000.000*	*7 years maturity – 2 years no principal payment*	*Once every 3 months*	*USLibor+ 1,30*	*115.335.000*	*Once every 3 months*	*%13,105*	*3,8445*
26 April 2018	*30.000.000*	*7 years maturity – 2 years no principal payment*	*Once every 3 months*	*USLibor+ 1,30*	*122.550.000*	*Once every 3 months*	*%14,11*	*4,0850*

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

4. FINANCIAL LIABILITIES (Cont'd)

TL denominated loans

Significant TL denominated loans of the Company are summarized below:

Opening date	TL Amount	Duration	Interest Payments	Interest Rate
4 March 2016	*33.333.333*	*6 years 4 months maturity – 2 years 4 months no principal payment*	*Once every 6 months*	*%12,50*
27 March 2017	*90.600.000*	*7 years maturity – 3 years no principal payment*	*Once every 6 months*	*%13,15*
22 June 2017	*123.270.000*	*7 years maturity – 3 years no principal payment*	*Once every 6 months*	*%12,58*

5. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2019		31 December 2018	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Forward contracts	218.000	172.282	945.277	45.011.981
Futures and options market	-	-	6.290.688	-
Commodity swap	-	-	-	3.529.081
Options	1.012.322	891.679	-	-
Short term derivative instruments that hedge accounting applied	**1.230.322**	**1.063.961**	**7.235.965**	**48.541.062**
Forward contracts	-	-	905.110	2.147.360
Short term derivative instruments that hedge accounting was not applied	**-**	**-**	**905.110**	**2.147.360**
Cross currency and interest rate swaps	1.040.401.405	-	1.015.154.266	-
Long term derivative instruments that hedge accounting applied	**1.040.401.405**	**-**	**1.015.154.266**	**-**
	1.041.631.727	**1.063.961**	**1.023.295.341**	**50.688.422**

In order to mitigate the foreign currency risks arising from US Dollar denominated raw material purchases and in order to mitigate the foreign currency risk arising from US Dollar and Euro short position, the Company enters into TL Selling/ US Dollar Buying and TL selling/Euro Buying forward contracts. The Company's derivative financial instruments also contain cross-currency and interest rate swap contracts. Transactions in the first group are carried out within the framework of cash flow hedge accounting, unrealized valuation differences are recognized in hedging reserve gains / (losses) under equity accounts, the valuation differences of cross currency and interest rate swap transactions are recognized under equity accounts while the valuation differences resulting from balance sheet currency hedging transactions are recognized in profit or loss accounts.

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

5. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

Cross Currency and Interest Rate Swap

The Company's cross currency and interest rates swap contracts which are done in order to mitigate variable interest rate and foreign currency risks resulting from US Dollar loans (Note 4) are explained below:

US Dollar Loans			Loan Conditions After Swap			Derivative Asset / (Liability)	
Opening Date	**US Dollar Amount**	**Interest Rate**	**TL Amount**	**Interest Rate**	**US Dollar FX Rate**	**31 December 2019**	**31 December 2018**
29 May 2015	*15.625.000*	*USLibor+ 1,000*	*41.406.250*	*%11,25*	*2,6500*	*52.339.605*	*65.628.779*
4 February 2016	*20.312.500*	*USLibor+ 0,8615*	*60.064.063*	*%12,70*	*2,9570*	*60.404.134*	*65.981.970*
4 March 2016	*20.312.500*	*USLibor+ 0,8692*	*60.064.063*	*%12,70*	*2,9570*	*60.803.848*	*66.629.071*
26 August 2016	*80.000.000*	*USLibor+ 1,30*	*237.600.000*	*%10,72*	*2,9700*	*251.013.746*	*233.100.070*
12 December 2016	*80.000.000*	*USLibor+ 1,90*	*308.920.000*	*%13,965*	*3,8615*	*163.655.037*	*167.995.815*
29 March 2017	*40.000.000*	*USLibor+ 1,30*	*144.960.000*	*%12,22*	*3,6240*	*96.486.483*	*91.705.958*
12 June 2017	*40.000.000*	*USLibor+ 1,30*	*140.560.000*	*%11,895*	*3,5140*	*103.074.547*	*96.559.656*
18 October 2017	*60.000.000*	*USLibor+ 1,15*	*218.400.000*	*%12,3835*	*3,6400*	*136.162.639*	*120.828.290*
15 December 2017	*30.000.000*	*USLibor+ 1,30*	*115.335.000*	*%13,105*	*3,8445*	*61.855.459*	*58.031.542*
26 April 2018	*30.000.000*	*USLibor+ 1,30*	*122.550.000*	*%14,11*	*4,0850*	*51.889.475*	*48.693.115*
						1.037.684.973	**1.015.154.266**

The Company has TL 2.716.432 derivative asset resulting from cross currency and interest rate swap contracts made on 15 October 2019 for the loans which are going to be used in 2020.

Forward Contracts

As of 31 December 2019, the Company's various forward contracts with a total TL 107.820.345 selling and US Dollar 17.827.835 buying has an average USD foreign exchange rate of TL 6,0479 causing net asset of TL 45.718 (31 December 2018: TL 45.308.954 liability).

Options

As of 31 December 2019, the Company's various option contracts with a total TL 77.756.500 selling and US Dollar 13.000.000 buying, TL 90.629.750 buying and US Dollar 13.000.000 selling purposes and has an average USD foreign exchange rate of TL 5,9813 and average upper limit of TL 6,9715 causing net asset of TL 120.643 (31 December 2018: none).

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

5. DERIVATIVE FINANCIAL INSTRUMENTS (Cont’d)

Commodity Swap

The Company has no commodity swap contract as of 31 December 2019 (31 December 2018: TL 3.529.081 net liability).

Quoted prices in markets for similar instruments are used as a basis in valuation of derivative instruments.

During the current period, expense amounting TL 57.768.014 has been recognized in profit or loss statement related with the realized derivative contracts (31 December 2018: TL 172.282.242 income).

6. TRADE RECEIVABLES AND PAYABLES

Trade Receivables

As of the balance sheet date, the Company’s trade receivables are as follows:

Short-term trade receivables	**31 December 2019**	**31 December 2018**
Account receivables	737.484.880	789.629.860
Notes receivables	11.270.004	39.154.175
Trade receivables from related parties (Note 25)	28.776.114	22.626.750
Unearned credit finance income	(15.641.000)	(15.900.639)
Doubtful receivables provision (-)	(140.591.202)	(115.353.983)
	621.298.796	**720.156.163**

Long-term trade receivables	**31 December 2019**	**31 December 2018**
Account receivables	65.274.225	82.537.208
Doubtful receivables provision (-)	(17.440.217)	(43.312.783)
	47.834.008	**39.224.425**

Trade receivables mainly include non-collected amounts arising from the sales of finished goods and trade goods.

As of 31 December 2019 and 31 December 2018, the maturities of trade receivables are 148 days and 144 days on average and they are discounted with average annual interest rates of 12,11% and 15.76%.

As of 31 December 2019, the receivables from third parties amounting to TL 55.190.267 (31 December 2018: TL 48.083.725) were past due but not impaired.

As of 31 December 2019, collaterals amounting to TL 26.003.043 have been received for receivables from third parties that over due (31 December 2018: TL 35.093.382).

The aging of over due receivables from third parties as of 31 December 2019 and 2018 is as follows:

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

6. TRADE RECEIVABLES AND PAYABLES (Cont'd)

	31 December 2019	31 December 2018
Between 0 - 1 months	36.092.167	19.050.418
Between 1 - 3 months	6.438.315	13.774.524
Between 3 - 12 months	12.659.785	15.258.783
	55.190.267	**48.083.725**

As of 31 December 2019, trade receivables amounting to TL 158.031.419 (31 December 2018: TL 158.666.766) were overdue and impaired.

The allowance for doubtful receivables is determined based on past experiences of collection of receivables and risk rating matrix developed for the expected credit loss computation.

Movements in provision for doubtful receivables are as follows:

	1 January- 31 December 2019	1 January- 31 December 2018
Opening balance as of 1 January	158.666.766	105.813.218
Additions / (cancellation) (*)	801.322	55.383.953
Collections	(1.436.669)	(2.530.405)
Closing balance	**158.031.419**	**158.666.766**

(*) As of 31 December 2019, the foreign currency exchange difference losses amounting to TL 243.896 arise from the doubtful receivables in foreign currency (31 December 2018: TL 1.103.912 foreign currency gain).

Trade Payables

As of the balance sheet date, the Company's trade payables detail is as follows:

Short-term trade payables	31 December 2019	31 December 2018
Trade payables	554.979.480	437.764.969
Trade payables to related parties (Note 25)	465.912.150	273.713.280
Unrealized finance expense due to credit purchases	(10.138.818)	(9.353.117)
	1.010.752.812	**702.125.132**

Long-term trade payables	31 December 2019	31 December 2018
Trade payables to related parties (Note 25)	12.412.854	52.648.185
	12.412.854	**52.648.185**

Trade payables mainly include non-paid amounts arising from trade purchases and ongoing expenditures.

As of 31 December 2019 and 31 December 2018, the maturities of trade payables are 127 days and 110 days on average and they are discounted with average annual interest rates of 12,11% and 15,76% respectively. The Company has financial risk management policy in order to manage the maturity structure of liabilities.

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

7. OTHER RECEIVABLES AND PAYABLES

Other Receivables

Other Short-term Receivables	**31 December 2019**	**31 December 2018**
Other receivables from related parties (Note 25)	65.474	1.122.453
Receivables from tax office	2.785.353	4.269.743
Due from personnel	4.235.490	9.690.956
Other miscellaneous receivables	2.113.355	3.367.607
	9.199.672	**18.450.759**

Other Long-term Receivables	**31 December 2019**	**31 December 2018**
Other receivables from related parties	282.623	-
Deposits and guarantees given	366.953	152.524
	649.576	**152.524**

Other Payables

Other Short-term Payables	**31 December 2019**	**31 December 2018**
Other payables to public authorities	8.206.406	8.598.888
Other payables to related parties (Note 25)	1.315.811	1.002.399
Deposits and guarantees taken	3.985.031	3.529.317
	13.507.248	**13.130.604**

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

8. INVENTORIES

	31 December 2019	31 December 2018
Raw materials	153.847.528	156.491.694
Materials and supplies	65.544.104	63.708.251
Semi-finished goods	31.253.063	29.060.787
Finished goods	179.687.674	158.653.927
Trade goods	88.677.479	82.091.368
Goods in transit	128.366.238	92.188.402
Less: Impairment on inventories	(12.695.168)	(10.570.661)
	634.680.918	**571.623.768**

Provision for impairment on inventories is shown in cost of goods sold and marketing expenses.
As of 31 December 2019 and 31 December 2018 movements in provision for impairment on inventories are as follows:

	1 January- 31 December 2019	1 January- 31 December 2018
Opening balance	10.570.661	9.059.487
Period charge	2.124.507	1.511.174
Closing balance	**12.695.168**	**10.570.661**

9. PREPAID EXPENSES AND DEFERRED INCOME

Short-term Prepaid Expenses	31 December 2019	31 December 2018
Prepaid expenses	14.835.249	14.948.242
Advances given to dealers (*)	1.698.268	7.354.823
Advances given to suppliers	10.049.704	3.874.383
Advances given to personnel	-	5.718
Prepaid loan commission (**)	1.764.803	-
	28.348.024	**26.183.166**

Long-term Prepaid Expenses	31 December 2019	31 December 2018
Prepaid expenses	26.477.226	16.819.456
Advances given to dealers (*)	593.826	3.306.328
Advances given for fixed assets	2.759.306	13.530.457
Prepaid loan commission(**)	6.600.452	-
	36.430.810	**33.656.241**

(*) Consists of advances given to dealers which are to be offset with sales premiums.
(**) Prepaid commissions for the loans which are going to be used in 2020.

Short-term Deferred Income	31 December 2019	31 December 2018
Contract liability arising from sales of goods (***)	10.392.250	-
Advances received	4.215.204	3.165.180
Deferred income	471.718	2.787.544
	15.079.172	**5.952.724**

Long-term Deferred Income	31 December 2019	31 December 2018
Deferred income	380.765	84.168
	380.765	**84.168**

(***) Consists of performance obligations whose payment has been received but control has not yet passed on to the customer.

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

10. PROPERTY, PLANT AND EQUIPMENT

	1 January 2019	Additions	Transfers (*)	Provision for impairment (**)	Disposals	31 December 2019
Cost						
Land and land improvements	79.286.120	-	4.600	-	-	79.290.720
Buildings	685.032.258	-	7.964.535	-	(816.100)	692.180.693
Machinery and equipment	2.242.225.449	898.810	204.675.026	-	-	2.447.799.285
Motor vehicles	15.930.208	1.821.719	351.226	-	(128.481)	17.974.672
Furniture and fixtures	124.327.348	8.255.414	7.729.922	-	(23.806)	140.288.878
Other fixed assets	111.005.615	17.937.203	-	(3.748.048)	(592.278)	124.602.492
Construction in progress	113.457.000	245.981.702	(254.558.708)	-	(1.208.955)	103.671.039
	3.371.263.998	**274.894.848**	**(33.833.399)**	**(3.748.048)**	**(2.769.620)**	**3.605.807.779**
Accumulated depreciation						
Land and land improvements	14.059.199	3.193.210	-	-	-	17.252.409
Buildings	171.654.170	15.776.456	-	-	(28.563)	187.402.063
Machinery and equipment	1.324.167.775	120.975.703	-	-	-	1.445.143.478
Motor vehicles	6.117.054	1.471.024	-	-	(128.481)	7.459.597
Furniture and fixtures	54.214.972	11.914.062	-	-	(16.858)	66.112.176
Other fixed assets	47.553.117	11.057.202	-	(2.500.670)	(314.465)	55.795.184
	1.617.766.287	**164.387.657**	**-**	**(2.500.670)**	**(488.367)**	**1.779.164.907**
Net book value	**1.753.497.711**	**110.507.191**	**(33.833.399)**	**(1.247.378)**	**(2.281.253)**	**1.826.642.872**

(*) TL 33.833.399 of construction in progress, transferred to intangible assets at the current year (31 December 2018: TL 27.390.937). Transfers in the current period are related with Aksaray Plant which continues capacity increase and İzmit plant which continues investments in buildings, machinery and equipment.

(**) It is the provision for the other fixed assets which were located in the closed dealers.

For the year ended 31 December 2019, TL 125.751.417 of the depreciation expense is charged to cost of goods sold, TL 148.520 is charged to research and development expenses, TL 19.285.946 is charged to selling and marketing expenses, TL 3.579.373 charged to general administrative expenses, TL 13.796.529 of the depreciation expense is charged to inventories, TL 1.825.872 of the depreciation expense is charged to capitalized development costs.

As of 31 December 2019, there are no mortgages on property, plant and equipment and intangible assets (31 December 2018: None).

The capitalized borrowing cost is TL 9.395.990 for the year ended 31 December 2019 (31 December 2018: TL 8.466.079)

During the current period, the purchase of fixed asset amounting to TL 2.520.172 was made through financial lease.

All property, plant and equipment of the Company are fully insured.

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

10. PROPERTY, PLANT AND EQUIPMENT (Cont’d)

In line with the Company’s long-term investment plans, the first phase of the factory which was started in 2014 with total area of 950.000 m2 located under Aksaray Province Organized Industrial Zone was completed in January 2018, production and sales operations were started. Investments in the second factory in Aksaray continue within the framework of capacity building plans.

	1 January 2018	Additions	Transfers	Disposals	31 December 2018
Cost					
Land and land improvements	17.918.386	62.150	61.305.584	-	79.286.120
Buildings	259.639.893	14.905	425.377.460	-	685.032.258
Machinery and equipment	1.645.065.282	1.541.050	596.736.948	(1.117.831)	2.242.225.449
Motor vehicles	8.849.297	495.803	6.652.692	(67.584)	15.930.208
Furniture and fixtures	100.269.642	5.651.506	18.406.200	-	124.327.348
Other fixed assets	98.167.520	12.678.275	498.423	(338.603)	111.005.615
Construction in progress	1.034.757.112	215.068.132	(1.136.368.244)	-	113.457.000
	3.164.667.132	**235.511.821**	**(27.390.937)**	**(1.524.018)**	**3.371.263.998**
Accumulated depreciation					
Land and land improvements	10.868.255	3.190.944	-	-	14.059.199
Buildings	155.924.709	15.729.461	-	-	171.654.170
Machinery and equipment	1.219.323.115	105.962.491	-	(1.117.831)	1.324.167.775
Motor vehicles	4.682.412	1.491.824	-	(57.182)	6.117.054
Furniture and fixtures	43.296.239	10.918.733	-	-	54.214.972
Other fixed assets	37.612.181	10.090.127	-	(149.191)	47.553.117
	1.471.706.911	**147.383.580**	**-**	**(1.324.204)**	**1.617.766.287**
Net book value	**1.692.960.221**	**88.128.241**	**(27.390.937)**	**(199.814)**	**1.753.497.711**

For the year ended 31 December 2018, TL 112.127.273 of the depreciation expense is charged to cost of goods sold, TL 162.338 is charged to research and development expenses, TL 18.101.071 is charged to selling and marketing expenses, TL 3.329.389 charged to general administrative expenses, TL 11.845.204 of the depreciation expense is charged to inventories, TL 1.818.305 of the depreciation expense is charged to capitalized development costs.

11. RIGHT OF USE ASSETS

	1 January 2019	TFRS 16 Opening Effect	Additions	Disposals	31 December 2019
Cost					
Buildings	-	5.270.947	191.191	(1.978.214)	3.483.924
Motor vehicles	-	9.141.176	13.498.947	(5.245.817)	17.394.306
	-	**14.412.123**	**13.690.138**	**(7.224.031)**	**20.878.230**
Accumulated depreciation					
Buildings	-	2.406.438	751.802	(1.511.689)	1.646.551
Motor vehicles	-	5.664.097	3.819.708	(4.949.293)	4.534.512
	-	**8.070.535**	**4.571.510**	**(6.460.982)**	**6.181.063**
Net book value	**-**	**6.341.588**	**9.118.628**	**(763.049)**	**14.697.167**

For the year ended 31 December 2019, TL 4.571.510 depreciation expense is charged to general administrative expenses.

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

12. INTANGIBLE ASSETS

	1 January 2019	Additions	Transfers	Disposals	31 December 2019
Cost					
Capitalized development costs	47.500.101	-	28.096.494	-	75.596.595
Rights	94.313.442	2.554.579	-	(299.570)	96.568.451
Other intangible assets	73.344.696	4.117.682	5.736.905	-	83.199.283
	215.158.239	**6.672.261**	**33.833.399**	**(299.570)**	**255.364.329**
Accumulated depreciation					
Capitalized development costs	18.194.540	10.356.384	-	-	28.550.924
Rights	77.895.998	8.262.477	-	(299.570)	85.858.905
Other intangible assets	53.050.399	7.287.411	-	-	60.337.810
	149.140.937	**25.906.272**	**-**	**(299.570)**	**174.747.639**
Net book value	**66.017.302**	**(19.234.011)**	**33.833.399**	**-**	**80.616.690**

For the year ended 31 December 2019, TL 10.526.449 of the amortization expense is charged to cost of goods sold, TL 4.131 is charged to research and development expenses, TL 10.058.506 is charged to selling and marketing expenses, TL 2.725.555 expense is charged to general administrative expenses, TL 2.531.538 is included in inventories, TL 60.093 of the depreciation expense is charged to capitalized development costs.

	1 January 2018	Additions	Transfers	Disposals	31 December 2018
Cost					
Capitalized development costs	30.591.385	-	16.908.716	-	47.500.101
Rights	92.300.032	1.662.048	1.625.172	(1.273.810)	94.313.442
Other intangible assets	62.331.751	2.155.896	8.857.049	-	73.344.696
	185.223.168	**3.817.944**	**27.390.937**	**(1.273.810)**	**215.158.239**
Accumulated depreciation					
Capitalized development costs	10.729.148	7.465.392	-	-	18.194.540
Rights	69.143.009	9.473.474	-	(720.485)	77.895.998
Other intangible assets	44.327.670	8.722.729	-	-	53.050.399
	124.199.827	**25.661.595**	**-**	**(720.485)**	**149.140.937**
Net book value	**61.023.341**	**(21.843.651)**	**27.390.937**	**(553.325)**	**66.017.302**

For the year ended 31 December 2018, TL 9.146.189 of the amortization expense is charged to cost of goods sold, TL 4.639 is charged to research and development expenses, TL 11.672.292 is charged to selling and marketing expenses, TL 3.770.121 expense is charged to general administrative expenses, TL 996.625 is included in inventories, TL 71.729 of the depreciation expense is charged to capitalized development costs.

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

13. PROVISIONS, CONTINGENT AND LIABILITIES

Provisions

Other short-term provisions	**31 December 2019**	**31 December 2018**
Provision for sales discount premium	200.000	-
Lawsuits	12.261.395	9.430.298
Warranty claims	559.243	470.316
Other provisions	922.502	4.518.424
	13.943.140	**14.419.038**

Provision for sales discount premium is the current period portion of discount premium to be paid to customers.

Provision for lawsuits consists of reemployment and occupational accident lawsuits against Company.

The provision for warranty claims represents the present value of management’s best estimate of the future outflow of economic benefits that will be required under the Company’s 24-month warranty program for tires. The estimate has been made on the basis of historical warranty expenses.

Other provisions mainly consist of advertising promotion expenditures to be invoiced in the next period.

Movements of provisions during the period are as follows:

	Provision for sales discount premium	**Lawsuits**	**Warranty claims**	**Other provisions**	**Total**
1 January 2019	-	9.430.298	470.316	4.518.424	14.419.038
Additions	200.000	5.212.117	88.927	-	5.501.044
Payments/reversals	-	(2.381.020)	-	(3.595.922)	(5.976.942)
31 December 2019	**200.000**	**12.261.395**	**559.243**	**922.502**	**13.943.140**

	Provision for sales discount premium	**Lawsuits**	**Warranty claims**	**Other provisions**	**Total**
1 January 2018	-	5.503.105	470.316	1.365.207	7.338.628
Additions	-	4.607.197	-	3.891.919	8.499.116
Payments/reversals	-	(680.004)	-	(738.702)	(1.418.706)
31 December 2018	**-**	**9.430.298**	**470.316**	**4.518.424**	**14.419.038**

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

14. COMMITMENTS

Received commitments	**31 December 2019**	**31 December 2018**
Direct debiting system ("DDS") limits	330.971.548	269.210.199
Letter of guarantees received	535.448.451	472.367.820
Mortgages	148.557.967	143.228.763
Export insurance	208.921.376	164.404.452
Cheques and notes receivables received as guarantee	11.492.062	10.176.812
Domestic receivables insurance	56.205.450	83.300.850
Payment guarantees obtained from banks	14.952.540	14.228.940
Letter of credit	7.914.582	11.060.303
Foreign currency blockage received as guarantee	4.578.949	3.529.317
	1.319.042.925	**1.171.507.456**

The Company has obtained bank collaterals and guarantee cheques and notes from its suppliers due to advances given to suppliers for purchases of goods and services.

The Company has guarantees comprising letters of guarantee received, mortgages, notes obtained from custormers and DDS limits provided to customers through banks in order to minimize customer credit risk in sales made to domestic customers on due. The Company also has guarantees for receivables from foreign customers due to credit risk management including export insurance, bank guarantee letters and letter of credit.

Company's total guarantees received from international export insurance company in order to carry out open account transactions with overseas non-related party customers have been disclosed as export insurance.

The amount of collaterals received by the Company within the scope of the agreement made with the domestic and international insurance companies in order to enable the Company to open account and term sales to the domestic dealers and fleet customers is stated as domestic receivables insurance.

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

14. COMMITMENTS (Cont'd)

Collaterals, Pledges and Mortgages:

As of 31 December 2019, and 2018 collaterals, pledges and mortgages ("CPM") given by the Company is as follows:

		31 December 2019			31 December 2018		
CPM given by the Company		**Currency**	**Amount**	**TL Equivalent**	**Currency**	**Amount**	**TL Equivalent**
A.	Total of CPMs given on behalf of own legal personality	TL	19.491.165	19.491.165	TL	16.837.891	16.837.891
		USD	-	-	USD	914.945	4.813.434
		EURO	2.834.161	18.848.871	EURO	2.941.655	17.732.296
B.	Total of CPMs given on behalf of subsidiaries consolidated in full	-	-	-	-	-	-
C.	CPM given for continuation of its economic activities on behalf of third parties	-	-	-	-	-	-
D.	Total amount of other CPM		-	-			
	i) Total amount of CPM given on behalf of the majority shareholder	-	-	-	-	-	-
	ii) Total amount of CPM given to on behalf of other Group companies which are not in scope of B and C	-	-	-	-	-	-
	iii) Total amount of CPM given on behalf of third parties which are not in scope of C	-	-	-	-	-	-
				38.340.036			**39.383.621**

The ratio of other CPM to equity is 0% (31 December 2018: 0%).

There are no CPMs given by the Company on behalf of third parties, other than those given on behalf of the Company itself. The guarantees given by the Company comprise guarantees to customs office for import transactions made under the inward processing certificate, guarantees to executive offices for labor matters, guarantees to several governmental institutions to participate in several tenders.

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

15. EMPLOYEE BENEFITS

Payables related to employee benefits

	31 December 2019	31 December 2018
Salaries and wages payable	4.886.571	3.448.135
Social security premiums payable	12.675.696	10.586.572
Withholding personnel income tax payable	10.229.678	8.439.347
Private pension contributions payable	61.968	55.689
	27.853.913	**22.529.743**

Short-term provisions for employee benefits

	31 December 2019	31 December 2018
Bonus accruals	21.174.218	12.700.000
Unused vacation pay provision	6.901.740	5.479.204
	28.075.958	**18.179.204**

Movements of provisions during the period are as follows:

	Bonus accruals	Unused vacation pay provision	Total
1 January 2019	12.700.000	5.479.204	18.179.204
Additions	21.700.000	1.977.378	23.677.378
Payments / Cancellations	(13.225.782)	(554.842)	(13.780.624)
31 December 2019	**21.174.218**	**6.901.740**	**28.075.958**

	Bonus accruals	Unused vacation pay provision	Total
1 January 2018	15.376.405	4.896.859	20.273.264
Additions	7.245.808	1.325.263	8.571.071
Payments / Cancellations	(9.922.213)	(742.918)	(10.665.131)
31 December 2018	**12.700.000**	**5.479.204**	**18.179.204**

Provision for retirement pay liability

Under Turkish Labor Law, the Company is required to pay termination benefits to each employee who has completed certain years of service and whose employment is terminated without due cause, is called up for military service, dies or achieves the retirement age (58 for women and 60 for men).

The amount payable consists of one month's salary limited to a maximum of TL 6.379,86 for each period of service at 31 December 2019 (31 December 2018: TL 5.434,42).

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

15. EMPLOYEE BENEFITS (Cont’d)

Provision for retirement pay liability (cont’d)

The liability is not funded, as there is no funding requirement. The reserve has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. TAS 19 “Employee Benefits” requires actuarial valuation methods to be developed to estimate the enterprise’s obligation under defined benefit plans. Accordingly, actuarial assumptions were used in the calculation of the total liability as these actuarial assumptions apply to each individual company’s defined benefit plan and legal framework in which those companies operate.

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2018, the provision has been calculated by estimating the present value of the future probable obligation arising from the retirement of the employees.

TAS 19 “Employee Benefits” requires actuarial valuation methods to be developed to estimate the enterprise’s obligation under defined benefit plans. Accordingly, actuarial assumptions used in the calculation of the total liability as these actuarial assumptions are detailed below:

	31 December 2019	31 December 2018
Discount rate (%)	4,50	5,50

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. As the maximum liability is revised semi - annually, the maximum amount of TL 6.730,15 effective from 1 January 2019 (1 January 2019: TL 6.017,60) has been taken into consideration in calculation of provision from employee termination benefits. As of 31 December 2019, the rate of voluntary employee withdrawal is 6,14% (31 December 2018: 6,31%).

The movement of employee termination benefits is as follows:

	1 January- 31 December 2019	1 January- 31 December 2018
As of 1 January	58.629.146	48.368.213
Service cost	6.997.967	4.587.492
Interest cost	8.464.718	5.444.288
Payments during the year	(2.695.797)	(1.981.498)
Actuarial gain / (loss)	10.911.240	2.210.651
As of 31 December	**82.307.274**	**58.629.146**

16. OTHER ASSETS AND LIABILITES

Other Current Assets	31 December 2019	31 December 2018
Deferred VAT	36.393.838	19.858.741
	36.393.838	**19.858.741**

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

17. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

Paid-in capital and adjustment to share capital

The Company adopted the registered capital system according to the provisions of the Capital Market Law and entered into this system with the permission of the Capital Market Board no. 96 dated February 24, 1989.

The registered capital ceiling of the company is TL 400.000.000 (Four hundred million). It has been divided into 40.000.000.000 units of shares, each having a nominal value of 1 kr (One Kurus).

The permission by the Capital Market Board for the registered capital ceiling is applicable between the years of 2018-2022 (5 years). Even if the permissible registered capital ceiling is not achieved by the end of the year 2022, the board of directors may take a decision for increase of capital after the year 2022 only if authorization for a new period is received from the General Assembly by obtaining permission from the Capital Market Board for the previously permitted ceiling or a new ceiling amount. If such authorization is not received, capital increase cannot be made with the decision of the Board of Directors. The Board of Directors is authorized to increase the issued capital by issuing registered shares up to the registered capital ceiling if and when required according to the provisions of the Capital Market Law.

The Company’s authorized and issued capital consists of 30.511.687.500 shares at Kr 1 nominal value each (31 December 2018: 30.511.687.500 shares). All issued shares are paid in cash. The Company’s shareholders and their shareholdings at 31 December 2019 and 2018 are as follows:

Shareholders	**(%)**	**31 December 2019**	**(%)**	**31 December 2018**
H.Ö. Sabancı Holding A.Ş.	43,63	133.111.388	43,63	133.111.388
Bridgestone Corporation	43,63	133.111.388	43,63	133.111.388
Other	12,74	38.894.099	12,74	38.894.099
Nominal capital	**100,00**	**305.116.875**	**100,00**	**305.116.875**
Adjustment to share capital		54.985.701		54.985.701
Total		**360.102.576**		**360.102.576**

The shares are divided into seven classes, such as (A), (B), (C), (D), (E), (F) and (G) as listed below. In case of increase of the issued capital, new shares shall be issued for each class of shares in proportion with their share ratios in the issued capital.

Share Classes	**Number of Shares**	**Issued Capital Amount (TL)**
A	6.865.129.687,50	68.651.296,875
B	762.792.187,50	7.627.921,875
C	762.792.187,50	7.627.921,875
D	762.792.187,50	7.627.921,875
E	10.679.090.625,00	106.790.906,250
F	3.059.101.102,00	30.591.011,020
G	7.619.989.523,00	76.199.895,230
Total	**30.511.687.500,00**	**305.116.875,000**

As stated in the article of association, Hacı Ömer Sabancı Foundation which owns 100 redeemed shares has privilege in profit sharing. These privileges are being computed in accordance with the article of association. There are no privileges for shares other than that.

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

17. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Cont'd)

Share premium

Share premium which is considered as a part of capital results from equity movements such as cancelled shares and gains on the sales of shares. As at 31 December 2019, The Company's share premium in the financial statements is TL 4.903 (31 December 2018: TL 4.903).

Restricted reserves and retained earnings

Restricted reserves are reserves which are reserved for specific purposes other than law or contractual obligations or dividend payments. These reserves are presented as the same amount in Company's statutory books and differences arising preparing the financial statements in accordance with TFRS are associated with prior years' profit or losses.

The details of the Company's restricted reserves at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
1st group legal reserves	40.548.851	38.201.003
2nd group legal reserves	83.675.987	83.675.988
Total	**124.224.838**	**121.876.991**

In accordance with the Turkish Commercial Code ("TCC") numbered 519, the first legal reserve is appropriated out of statutory profits at the rate of 5 percent per annum, until the total reserve reaches 20 percent of the company's paid-in share capital. The second legal reserve is appropriated at the rate of 10 percent per annum of all cash distributions in excess of 5 percent of the paid-in share capital.

As of 31 December 2019, the Company's 1st group legal reserves are 13,3% of the paid-in share capital (31 December 2018: 12,5%), and there is no limit for the 2nd group legal reserves. Unless such reserves do not exceed half of the Company's paid-in share capital, they may only be used to settle losses, to continue operations or to prevent unemployment and to mitigate the consequences when business is not going well.

The Company's equity table is as follows:

	31 December 2019	31 December 2018
Restricted reserves	124.224.838	121.876.991
Other reserves	200.582	84.376
Net income for the period	114.013.293	95.741.377
Retained earnings	277.149.271	184.732.497
Total equity	**515.587.984**	**402.435.241**

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

17. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Cont'd)

Other Comprehensive Income or Expenses that will be Reclassified to Profit or (Loss)

	Hedging reserve gains / (losses)
As at 1 January 2018 (Opening balance)	**8.387.306**
Current year increase / (decrease)	180.431.660
Tax effect	(35.134.416)
As at 31 December 2018 (Closing balance)	**153.684.550**
As at 1 January 2019 (Opening balance)	**153.684.550**
Current year increase / (decrease)	(159.213.192)
Tax effect	30.888.172
As at 31 December 2019 (Closing balance)	**25.359.530**

Other Comprehensive Income or Expenses that will not be Reclassified to Profit or (Loss)

	Actuarial gains / (losses)
As at 1 January 2018 (Opening balance)	**6.484.504**
Current year increase / (decrease)	(2.210.651)
Tax effect	442.130
As at 31 December 2018 (Closing balance)	**4.715.983**
As at 1 January 2019 (Opening balance)	**4.715.983**
Current year increase / (decrease)	(10.911.240)
Tax effect	2.182.248
As at 31 December 2019 (Closing balance)	**(4.013.009)**

18. SALES AND COST OF SALES

Revenue	**1 January-31 December 2019**	**1 January-31 December 2018**
Domestic sales	2.299.495.419	2.161.780.203
Export sales	1.495.912.250	1.089.293.799
Sub-total	**3.795.407.669**	**3.251.074.002**
Sales returns (-)	(22.015.791)	(19.961.526)
Sales discounts (-)	(125.496.488)	(160.292.926)
Other sales discounts (-)	(89.566.085)	(72.043.854)
Net Sales	**3.558.329.305**	**2.998.775.696**
Cost of sales	(2.718.740.169)	(2.232.016.139)
Gross profit	**839.589.136**	**766.759.557**

The details of domestic and export sales are as follow:

	1 January-31 December 2019	**1 January-31 December 2018**
Finished goods	3.180.333.693	2.620.838.398
Trade goods	544.793.448	584.516.101
Semi-finished goods	67.146.387	43.340.235
Other	3.134.141	2.379.268
Total	**3.795.407.669**	**3.251.074.002**

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

19. EXPENSES BY NATURE

	1 January-31 December 2019	1 January-31 December 2018
Raw materials and supplies	1.793.977.327	1.406.486.264
Personnel expenses and direct labor expenses	483.721.046	404.300.843
Cost of trade goods sold	243.029.397	310.929.429
Depreciation and amortization	189.493.236	158.313.312
Production overheads	205.113.982	142.152.351
Advertisement expenses	85.356.818	94.103.978
Royalty and sales commission expenses	65.931.178	52.001.255
Impairment loss on trade receivables, net	(635.347)	52.853.548
Communication and information technology expenses	19.551.859	16.176.503
Rent expenses (*)	2.685.271	7.308.945
Service, maintenance and repair expenses	10.306.954	7.457.922
Real estate and stamp tax expenses	1.535.661	4.963.480
Claims for defective tires	7.835.280	6.052.094
Transportation and storage expenses	3.399.893	3.871.546
Energy expenses	4.301.270	2.970.077
Insurance expenses	3.427.199	2.566.038
ELT (end of life-tire) management service	1.234.203	1.336.266
Change in semi-finished goods	1.047.910	(3.448.587)
Change in finished goods	(30.365.700)	(57.413.782)
Other expenses	45.509.787	42.691.892
	3.136.457.224	**2.655.673.374**

(*) The amount consists of expenses from the leases exempted from TFRS 16.

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

Depreciation and amortization expenses	1 January-31 December 2019	1 January-31 December 2018
Cost of sales	149.119.695	121.273.462
Marketing expenses	29.344.452	29.773.363
General administrative expenses	10.876.438	7.099.510
Research and development expenses	152.651	166.977
	189.493.236	**158.313.312**

As of 31 December 2018, TL 12.841.829 depreciation expense remained on inventories is recognized under cost of sales after the sales of related inventories in 2019.

Personnel expenses	1 January-31 December 2019	1 January-31 December 2018
Cost of sales	356.817.558	312.037.002
Marketing expenses	80.617.082	57.321.780
General administrative expenses	45.134.145	34.065.253
Research and development expenses	1.152.261	876.808
	483.721.046	**404.300.843**

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

20. OTHER OPERATING INCOME AND EXPENSES

Details of other operating income for years ended 31 December 2019 and 2018 are as follows:

	1 January-31 December 2019	**1 January-31 December 2018**
Income from derivative financial instruments, net (**)	-	150.543.547
Finance income on credit sales	103.371.167	93.173.601
Interest income from operations, net	-	7.862.968
Other income	8.625.343	6.738.746
	111.996.510	**258.318.862**

Details of other operating expenses for years ended 31 December 2019 and 2018 are as follows:

	1 January-31 December 2019	**1 January-31 December 2018**
Foreign exchange losses on operations, net (*)	36.473.182	95.085.901
Due date expenses on trade payables	79.372.314	65.954.717
Loss from derivative financial instruments, net (**)	17.560.262	-
Interest expense from operations, net	410.599	-
Credit card commission expenses	5.943.725	82.623
Other expenses	11.317.250	10.947.411
	151.077.332	**172.070.652**

(*) The amount consists of the foreign exchange gains and losses resulting from trade receivables and payables.
(**) The amount consists of gain and losses resulting from derivative instruments made for the purpose of balance sheet hedging.

21. INCOME AND EXPENSES FROM INVESTING ACTIVITIES

Income from Investing Activities	**1 January-31 December 2019**	**1 January-31 December 2018**
Gain on sale of property, plant and equipment	131.580	258.229
	131.580	**258.229**

Expenses from Investing Activities	**1 January-31 December 2019**	**1 January-31 December 2018**
Impairment on property, plant and equipment	1.247.378	-
Loss on sale of property, plant and equipment	825.776	307.592
	2.073.154	**307.592**

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

22. FINANCING INCOME & EXPENSES

Details of financial income & expenses for years ended 31 December 2019 and 31 December 2018 are as follows:

	1 January-31 December 2019	1 January-31 December 2018
Foreign currency gains from bank deposits	38.773.258	-
Interest income from banks	10.671.926	10.467.244
Total financial income	**49.445.184**	**10.467.244**

	1 January-31 December 2019	1 January-31 December 2018
Interest expenses on borrowings	318.644.108	286.255.478
Interest expense included in cost of fixed assets	(9.395.990)	(8.466.079)
Total interest expense	**309.248.118**	**277.789.399**
Foreign currency losses from bank deposits	-	67.912.106
Interest expense from leases	1.911.673	-
Other financial expenses	2.723.725	-
Total financial expenses	**313.883.516**	**345.701.505**

23. TAXATION ON INCOME

Corporate tax

	31 December 2019	31 December 2018
Corporate income tax provision for the current period	421.891	685.180
Less: Prepaid taxes	(764.912)	(1.974.200)
Tax liabilities / (assets) related with the current period	**(343.021)**	**(1.289.020)**

As of 31 December 2019, the amount of prepaid tax expense amounting to TL 343.021, which is the portion exceeding the corporate tax payable, is included in the current tax assets (31 December 2018: TL 1.289.020 current tax assets).

The Company is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Company's results for the years and periods

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

Applied corporate tax rate is %22 in 2019 (2018: %22).

	1 January-31 December 2019	1 January-31 December 2018
Current period corporate tax expense (-)	(421.891)	(685.180)
Deferred tax income / (expense)	(1.976.169)	2.359.649
	(2.398.060)	**1.674.469**

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

23. TAXATION ON INCOME (Cont’d)

Corporate tax (Cont’d)

Current period tax reconciliation for the years ended 31 December 2019 and 31 December 2018 is as follows:

Current tax provision reconciliation:	**1 January-31 December 2019**	**%**	**1 January-31 December 2018**	**%**
Profit before taxation on income	116.411.353		94.066.908	
Corporate tax rate %22 (2018: %22)	(25.610.498)	(22,00)	(20.694.720)	(22,00)
Tax effect:				
- Non-taxable income	1.642.097	1,41	1.331.847	1,42
- Non-deductible expenses	(277.377)	(0,24)	(2.907.293)	(3,09)
- The effect of change in corporate tax rate	1.561.251	1,34	701.209	0,75
- Research and development incentive	3.974.637	3,41	3.113.302	3,31
- Reduced corporate tax deferred tax Income / (expense)	15.050.768	12,93	11.871.892	12,62
- Reduced corporate tax	1.261.062	1,08	8.258.232	8,78
Tax income / (expense) recognized in statement of profit or loss	**(2.398.060)**	**(2,06)**	**1.674.469**	**1,78**

Deferred tax

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

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. Therefore, deferred tax assets and liabilities as of 31 December 2019 are calculated by 22% (2018: 22%) tax rate for the temporary differences which will be realized in 2020, and by 20% tax for those which will be realized after 2021 and onwards.

The composition of cumulative temporary differences and the related deferred income tax assets and liabilities in respect of items for which deferred income tax has been provided at 31 December 2019 and 31 December 2018 using the enacted tax rates are as follows:

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

23. TAXATION ON INCOME (Cont'd)

Deferred tax (Cont'd)

	Temporary differences		Deferred income tax assets / liabilities	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Deferred tax assets				
Derivative instruments valuation differences	1.026.647.834	844.519.750	205.350.846	169.899.616
Allowance for doubtful receivables	54.004.304	70.225.790	11.880.947	15.449.674
Provision for employment termination benefits	82.307.274	58.629.146	16.461.455	11.725.829
Trade receivables	15.272.970	51.089.135	3.360.053	11.239.610
Provision for bonus premium	21.174.218	12.700.000	4.658.328	2.794.000
Inventories	28.597.576	-	6.291.467	-
Provision for lawsuits	12.261.395	9.430.298	2.697.507	2.074.666
Provision for unused vacation liability	6.901.740	5.479.204	1.518.383	1.205.425
Provision for warranty claims	559.243	470.316	123.033	103.470
Investment incentive	-	-	44.180.683	29.129.915
Other	25.119.728	11.217.213	5.483.526	2.467.786
	1.272.846.282	**1.063.760.852**	**302.006.228**	**246.089.991**
Deferred tax liabilities				
Derivative instruments valuation differences	1.058.346.547	1.038.719.181	211.693.916	207.853.259
Property, plant and equipment and intangible assets	406.849.839	297.730.245	81.369.968	59.546.049
Trade payables	10.138.818	9.353.118	2.230.540	2.057.686
Inventories	-	5.440.172	-	1.196.838
Other	403.939	676.118	80.789	143.584
	1.475.739.143	**1.351.918.834**	**295.375.213**	**270.797.416**
Deferred tax assets / (liabilities), net			**6.631.015**	**(24.707.425)**

The movements in deferred tax assets / (liabilities) for the years ended 31 December 2019 and 31 December 2018 are as follows:

	1 January- 31 December 2019	**1 January- 31 December 2018**
Opening as of 1 January	(24.707.425)	7.625.212
Adjustment related with the first implementation of TFRS 16 (*)	244.189	-
Restated balance as of 1 January	**(24.463.236)**	**7.625.212**
Recognized in profit or loss statement	(1.976.169)	2.359.649
Income / (expense) recognized in equity	33.070.420	(34.692.286)
Closing as of 31 December	**6.631.015**	**(24.707.425)**

(*) The Company applied TFRS 16 on January 1st, 2019, comparative balances are not restated according to the selected transition method.

23. TAXATION ON INCOME (Cont’d)

Investment incentive certificate

In accordance with the 40613 No. Letter on 10 June 2013 from T.C. Ministry of Economy Promoting Implementation and Foreign Investment General Directorate, within the scope of No: 5534 Regional Incentive Applications dated 1 June 2010, in place of existing Investment Incentive Certificate amounting to TL 366.623.571, as a part of Large-Scale Investments; Investment Incentive Certificate No. 5534/B amounting to TL 481.014.717 has been arranged. With the amendment mentioned above, the investment amount rose by TL 114.391.146, thus increasing the investment contribution rate from 20% to 30%. Tax deduction rate is 50%. The certificate has been completed on 20 May 2015 and the investment completion visa amounting to TL 472.729.954 was obtained on 29 June 2017. The Company utilized reduced corporate tax amounting to TL 15.653.428 for the years ended between the years 2010-2018 and TL 421.890 for the period 1 January – 31 December 2019.

The Company’s application to T.C. Ministry of Economy Incentive Implementation and Foreign Capital Department for investment incentive in accordance with the investment decision of a second production plant construction in Aksaray Organized Industrial Zone has been approved and 13 February 2014 dated, 113798 numbered Investment Incentive Certificate has been arranged for the plant construction amounting to TL 495.000.000 that had started on 9 October 2013. Investment contribution rate is 60% while the tax deduction rate is 90% for the investment certificate.

In accordance with the 67577454-401.07 - E.36663 numbered Letter on 28 March 2016 from T.C. Ministry of Economy Promoting Implementation and Foreign Investment General Directorate, Aksaray Plant Investments domestic and imported machinery and equipment lists have been revised and approved and the total investment expenditure figure has been increased to TL 755.998.847. The document has been revised again on 5 November 2018 and the total investment expenditure figure has been increased to TL 1.157.187.900. There has been no change in the supportive element of the new investment incentive document. The Company utilized reduced corporate tax amounting to TL 74.746.059 for the years ended between the years 2013-2018 and TL 35.859 for the period 1 January – 31 December 2019.

The duration of the investment incentive certificate received for the Company’s Aksaray Plant dated 9 October 2013 has been expanded from 9 October 2018 to 9 April 2021. With this extension, the 90% corporate tax deduction under the Aksaray large-scale investment incentive will continue to be applied to the entire Company tax base until April 2021, as in the last 5 years, regardless of the factory distinction.

According the expansion investment decision in İzmit Plant, the investment incentive certificate application of the Company to the Ministry of Economy, Incentive Application and General Directorate of Foreign Investments is approved and under the large-scale investments starting from 21 May 2015 to 21 May 2020, an investment incentive certificate is arranged at 20 August 2015 and numbered 120314 for the expansion investment amounting to TL 690.443.917. Investment incentive certificates provided by the contribution rate of 25%, the tax deduction rate is 50%. The incentive certificate has been increased to TL 866.641.410 on 5 May 2017. The Company utilized reduced corporate tax amounting to TL 3.116.783 for the years ended between the years 2015 - 2018 and TL 803.313 for the period 1 January – 31 December 2019.

The Company estimates to utilize TL 1.180.137.692 reduced corporate tax in the future. In addition to this, since it is not predictable how long the benefit will be utilized, the Company recognized deferred tax asset amounting to TL 44.180.683 for the foreseeable 3 years.

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

24. EARNINGS PER SHARE

Earnings per share for each class of share disclosed in the statements of income is determined by dividing the net income attributable to that class of share by the weighted average number of shares of that class outstanding during the year.

	31 December 2019	31 December 2018
Average number of shares during the period	30.511.687.500	30.511.687.500
Net profit for the period	114.013.293	95.741.377
Profit attributable to redeemed to shares	5.820.568	4.703.345
Earnings shares with nominal value of 1 TL	0,355	0,298
Diluted earnings share with nominal value of 1 TL	0,355	0,298

25. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Due from related parties as of 31 December 2019 mostly consist of sales transactions and have average maturity of approximately 6 days (31 December 2018: 6 days). Due to related parties as of 31 December 2019 mostly consist of purchase transactions and have average maturity of approximately 170 days (31 December 2018: 168 days).

Balances with related parties	**31 December 2019**			
	Receivables Short / Long term		**Payables Short / Long term (*)**	
	Trade	Non-Trade	Trade	Non-Trade
Shareholders				
H.Ö. Sabancı Holding A.Ş.	-	-	23.923	-
Bridgestone Corporation	944.993	7.815	115.763.525	1.312.254
Other related parties				
Bridgestone Europe S.A/N.V.	14.161.688	338.717	12.912.582	-
Bridgestone Poznan Sp. Z.O.O.	2.242.572	-	-	-
Bridgestone Tatabanya Termelo Kft.	3.664.933	-	-	-
Bridgestone Hispania	672.906	-	53.043	-
Akbank T.A.Ş	6.052.248	-	-	-
Ak Sigorta A.Ş.	139	-	734.474	-
Bridgestone Singapore Pte. Ltd.	-	-	235.744.800	-
Kordsa Teknik Tekstil A.Ş.	-	-	90.794.230	-
Enerjisa Enerji Üretim A.Ş.	-	-	6.870.258	-
Bridgestone (Shenyang) Steel Cord Co.	-	-	4.739.808	-
Sabancı Dijital Teknoloji Hizmetleri A.Ş.	-	-	5.512.626	-
Bridgestone Carbon Black Co. Ltd.	-	-	2.355.765	-
Other	1.036.635	1.565	2.819.970	3.557
	28.776.114	**348.097**	**478.325.004**	**1.315.811**

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

25. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont’d)

Balances with related parties	**31 December 2018**			
	Receivables Short / Long term		**Payables Short / Long term (*)**	
	Trade	Non-Trade	Trade	Non-Trade
Shareholders				
H.Ö. Sabancı Holding A.Ş.	-	-	754	-
Bridgestone Corporation	993.212	326.965	66.055.900	998.871
Other related parties				
Bridgestone Singapore Pte. Ltd.	-	-	173.284.766	-
Kordsa Teknik Tekstil A.Ş.	-	-	66.571.911	-
Bridgestone (Shenyang) Steel Cord Co.	-	-	3.378.302	-
Enerjisa Enerji Üretim A.Ş.	-	-	3.203.254	-
Bridgestone Europe S.A/N.V.	15.529.572	794.069	3.931.164	-
Temsa Ulaşım Araçları San.ve Tic. A.Ş.	3.810.065	-	-	-
Sabancı Dijital Teknoloji Hizmetleri A.Ş.	-	-	4.050.256	-
Akbank T.A.Ş	320.858	-	-	-
Other	1.973.043	1.419	5.885.158	3.528
	22.626.750	**1.122.453**	**326.361.465**	**1.002.399**

(*) TL 78.581.033 (31 December 2018: TL 52.648.185) of trade payables consists of long-term royalty and sales commission payable to Bridgestone Corporation.

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

25. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont'd)

Sales of finished goods and trade goods	1 January- 31 December 2019	1 January- 31 December 2018
Shareholders		
Bridgestone Corporation	1.941.506	20.082.321
Other related parties		
Bridgestone Europe SA./N.V.	409.791.797	265.348.657
Bridgestone Italia Manufacturing S.A.	15.029.369	860.277
Bridgestone France S.A.	17.607.695	5.434.660
Bridgestone Tatabanya Termelo	17.521.063	27.099.065
Bridgestone Poznan Sp. Z. O.O.	10.540.536	9.451.131
Bridgestone Hispania	4.440.014	349.237
Temsa Ulaşım Araçları San.ve Tic. A.Ş.	1.670.083	8.674.851
Toroslar Elektrik Dağıtım A.Ş.	1.921.428	633.393
Başkent Elektrik Dağıtım A.Ş.	1.646.965	1.159.964
Akbank T.A.Ş.	-	17.607.193
Other	4.006.141	1.270.922
	486.116.597	**357.971.671**

Other sales	1 January- 31 December 2019	1 January- 31 December 2018
Shareholders		
Bridgestone Corporation	44.971	329.035
Other related parties		
Bridgestone Europe SA./N.V.	1.136.511	501.743
Other	702.408	166.238
	1.883.890	**997.016**

Purchases of Raw Materials, Semi Finished Goods and Consumables	1 January- 31 December 2019	1 January- 31 December 2018
Shareholders		
Bridgestone Corporation	3.233.897	2.530.146
Other related parties		
Bridgestone Singapore Pte. Ltd.	420.952.011	356.729.139
Kordsa Teknik Tekstil A.Ş.	135.354.360	108.223.451
Bridgestone (Shenyang) Steel Cord Co.	15.444.237	16.757.739
Bridgestone Carbon Black Co. Ltd.	8.683.877	6.478.883
Firestone Polymers, LLC.	2.980.745	10.905.516
Other	14.146.838	6.343.767
	600.795.965	**507.968.641**

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

25. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont'd)

Purchases of finished goods and trade goods	**1 January-31 December 2019**	**1 January-31 December 2018**
Shareholders		
Bridgestone Corporation	50.396.678	92.335.620
Other related parties		
Bridgestone Europe SA./N.V.	171.690.714	179.800.210
Enerjisa Enerji Üretim A.Ş.	71.759.132	40.851.068
Other	701.071	295.185
	294.547.595	**313.282.083**

Purchases of services	**1 January-31 December 2019**	**1 January-31 December 2018**
Shareholders		
H. Ö. Sabancı Holding A.Ş.	24.989	83.414
Other related parties		
Sabancı Dijital Teknoloji Hizmetleri A.Ş.	19.898.879	16.333.253
Aksigorta A.Ş.	15.892.351	11.944.801
Lasder Lastik San. Derneği İktisadi İşletmesi	8.387.961	9.293.132
Vista Turizm ve Seyahat A.Ş.	7.834.816	4.058.993
Other	1.359.054	2.032.272
	53.398.050	**43.745.865**

Rent expense	**1 January-31 December 2019**	**1 January-31 December 2018**
Other related parties		
Exsa Export Sanayi Mamulleri A.Ş.	1.208.436	770.880
Teknosa İç ve Dış Ticaret A.Ş.	61.739	52.202
Sabancı Dijital Teknoloji Hizmetleri A.Ş.	20.764	-
	1.290.939	**823.082**

Purchase of fixed assets	**1 January-31 December 2019**	**1 January-31 December 2018**
Shareholders		
Bridgestone Corporation	34.130.180	23.550.123
Other related parties		
Sabancı Dijital Teknoloji Hizmetleri A.Ş.	3.010.140	4.214.601
Bridgestone Plant Eng.	5.270.470	5.624.489
Bridgestone Logistics Co.	1.660.485	307.972
Other	177.385	232.883
	44.248.660	**33.930.068**

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

25. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont'd)

	1 January- 31 December 2019	1 January- 31 December 2018
Commission expense (Sales premium, Royalty, and Interest Expense (*))		
Shareholders		
Bridgestone Corporation	67.817.054	52.556.668
	67.817.054	**52.556.668**

(*) Interest expense for the royalty payable of the Company amounting to TL 1.885.876 is included (2018: TL 555.413).

	1 January- 31 December 2019	1 January- 31 December 2018
Financial income		
Akbank Malta	8.627.070	8.436.040
Akbank T.A.Ş.	246.344	588.402
	8.873.414	**9.024.442**
Financial expense		
Akbank Malta	45.369.531	62.683.248
Akbank T.A.Ş.	15.812.632	28.828
	61.182.163	**62.712.076**

	31 December 2019	31 December 2018
Demand deposits		
Akbank T.A.Ş.	32.838.860	6.750.379
	32.838.860	**6.750.379**
Time deposits (**) (Less than 3 months)		
Akbank Malta	450.806.207	32.154.134
Akbank T.A.Ş.	2.529.896	8.673.896
	453.336.103	**40.828.030**
Credit card slip receivables		
Akbank T.A.Ş.	30.418.828	24.918.991
	30.418.828	**24.918.991**
Derivative assets		
Akbank Malta	462.979.647	448.466.348
Ak Yatırım Menkul Değerler A.Ş.	-	6.290.688
	462.979.647	**454.757.036**
Short-term financial liabilities		
Akbank T.A.Ş.	148.986.641	4.542.774
	148.986.641	**4.542.774**
Long-term finacial liabilities		
Akbank Malta	985.124.016	905.738.539
	985.124.016	**905.738.539**

(**) Interest rates of the Company's time deposits from related parties are 10% for TL, 2,20% for US dollar, 0,30% for EUR and maturities are in January 2020.

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

25. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont’d)

	31 December 2019	31 December 2018
Advances given		
Bridgestone Poznan Sp. Z.o.o.	1.247.121	-
Ak Yatırım Menkul Değerler A.Ş.	-	2.207.918
	1.247.121	**2.207.918**
Advances received		
Bridgestone Corporation	9.221	9.221
	9.221	**9.221**
Derivative assets		
Akbank Malta	462.979.647	448.466.348
Ak Yatırım Menkul Değerler A.Ş.	-	6.290.688
	462.979.647	**454.757.036**

Key management personnel include members of the board of directors, executive board members. The compensation of key management consists of the payments for salary, termination indemnity, pensions, insurances, rent and relocation expenses, vehicle rents, fuel and cell phones, other expenses and the provision of employee termination benefits and other provisions.

The remuneration of key managements for the year ended 31 December 2019 and 2018 are as follows:

	1 January- 31 December 2019	1 January- 31 December 2018
Salaries and other short-term benefits	10.565.071	6.813.135
Employment termination benefits	104.392	174.679
Other long-term benefits	202.365	167.004
	10.871.828	**7.154.818**

There is no guarantee that the Company gave or received from its related parties.

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

26. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

Financial risk management

Financial risk factors

The Company’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.The Company’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company’s financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

Financial risk management is carried out by Chief Financial Officer of Brisa under policies approved by the board of directors. Chief Financial Officer identifies, evaluates and hedges financial risks in close co-operation with the Company’s operating units.

(a) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, the Company aims at maintaining flexibility in funding by keeping committed credit lines available.

The table below depicts the cash outflows the Company will pay for the financial liabilities in the balance sheet in accordance with the remaining maturities. The amounts in the table are contractual and non-discounted. The Company performs its liquidity risk management by considering expected non-discounted cash flows.

As of 31 December 2019, and 31 December 2018, liquidity risk analysis of the financial liabilities of the Company is as follows:

31 December 2019

Contractual Maturities	Carrying value	Contractual cash flows total (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Unsecured bank loans (*)	3.145.877.960	2.663.022.267	223.029.147	800.810.264	1.620.312.327	18.870.529
Lease liabilities	17.040.548	11.110.674	464.942	1.394.827	9.250.905	-
Factoring payables	14.352.229	14.352.229	3.588.057	10.764.172	-	-
Trade payables	1.023.165.666	1.033.304.484	735.526.334	285.365.296	12.412.854	-
Other payables	41.361.455	41.361.455	34.459.715	6.901.740	-	-
Total liabilities	**4.241.797.858**	**3.763.151.109**	**997.068.195**	**1.105.236.299**	**1.641.976.086**	**18.870.529**
Derivative financial liabilities						
Derivative cash inflows	(1.230.322)	(129.515.845)	(105.572.250)	(23.943.595)	-	-
Derivative cash outflows	1.063.961	146.690.750	146.690.750	-	-	-
	(166.361)	**17.174.905**	**41.118.500**	**(23.943.595)**	**-**	**-**

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

26. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Cont'd)

(a) Liquidity risk (Cont'd)

31 December 2018

Contractual Maturities	Carrying value	Contractual cash flows total (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Unsecured bank loans (*)	2.662.098.547	2.514.359.064	82.095.830	239.444.828	2.030.313.640	162.504.766
Factoring payables	11.416.813	11.416.813	2.854.203	8.562.610	-	-
Trade payables	754.773.317	764.126.434	579.056.236	132.422.013	52.648.185	-
Other payables	35.660.347	35.660.347	30.181.143	5.479.204	-	-
Total liabilities	**3.463.949.024**	**3.325.562.658**	**694.187.412**	**385.908.655**	**2.082.961.825**	**162.504.766**
Derivative financial liabilities						
Derivative cash inflows	(8.141.075)	(269.273.280)	(266.454.780)	(2.818.500)	-	-
Derivative cash outflows	50.688.422	375.371.831	315.925.450	59.446.381	-	-
	42.547.347	**106.098.551**	**49.470.670**	**56.627.881**	**-**	**-**

(*) Cash outflows from bank loans are shown in cash flows that are fixed by cross currency and interest swap agreements.

(b) Market Risk

Interest rate risk

The Company's floating interest rate loans are exposed to risk as a result of differences resulting from the re-pricing of various variable rate indicators. The goal of risk management is to optimize net interest income by keeping market interest rates in line with the company's operating policies. The Company has secured 100% of its floating rate US dollar loan against the risk of fluctuating interest rates in the market. In accordance with this policy, the Company has signed interest rate swap agreements for its floating rate loans. As of December 31, 2019 and 2018, the Company's table of interest position is as follows:

	31 December 2019	31 December 2018
Financial instruments with fixed interest rate		
Financial liabilities (*)	3.162.918.508	2.662.098.547
Time deposits	453.336.103	40.828.030
Financial investments	101.696.721	-

(*) Floating rate loans are shown as financial instruments as fixed interest rate due to hedged with cross currency and interest swap agreements.

Fair value risk of fixed rate instruments:

At the reporting date, the Company does not have any financial liability classified as at fair value through profit or loss. Therefore, a change in interest rates as at 31 December 2019 would not have any effect over the profit or loss.

26. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Cont’d)

(b) Market Risk (cont’d)

Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to conversion at foreign currency denominated assets and liabilities in to the Turkish Lira. Foreign Exchange risk is monitored with an analysis of foreign exchange positions. In addition, the company aims to reduce foreign exchange risk arising from assets and liabilities by using currency forward instruments.

The Company has documented officially its currency risk policy practices and derivative transactions under its “Currency Risk Hedge Policy” and performs this practice according to the rules and limits stated in the document and approved by senior management.

Derivative financial instruments

The derivative financial instruments of the Company consist of foreign exchange forward contracts and cross currency and interest rate swap contracts. Such contracts while providing effective economic hedges for the associated risks also qualify for hedge accounting under the requirements of TAS 39 “Financial Instruments: Recognition and Measurement” thus they are accounted for as hedging derivatives financial instruments in the financial statements.

The Company recognize effective portion of the gains and losses relating to the hedging transactions under equity as hedge reserves.

All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

26. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Cont'd)

(b) Market Risk (Cont'd)

Foreign exchange risk (cont'd)

The Company's assets and liabilities denominated in foreign currencies at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019				
Foreign currency position table	**TL Equivalent (Functional currency)**	**US Dollar**	**Euro**	**JPY**	**GBP**
Cash and cash equivalents	415.794.533	42.709.100	23.823.880	2.530.708	451.803
Trade receivables	60.200.738	3.316.994	4.661.939	-	1.220.657
Other receivables	97.840	504	12.680	193.710	-
Trade receivables from related parties	21.971.581	440	3.303.306	-	-
Other receivables from related parties	53.797		8.089	-	-
Current Assets	**498.118.489**	**46.027.038**	**31.809.894**	**2.724.418**	**1.672.460**
Trade receivables	7.594	345	-	-	713
Other receivables from related parties	282.623	-	42.496	-	-
Non-Current Assets	**290.217**	**345**	**42.496**	**-**	**713**
Total Assets	**498.408.706**	**46.027.383**	**31.852.390**	**2.724.418**	**1.673.173**
Trade payables	554.350.973	55.664.108	28.832.613	577.086.897	78.472
Trade payables to related parties	-				
Other payables	3.985.031	670.858	-	-	-
Other payables to related parties	1.262.567	43	-	23.250.841	-
Short-term portion of long-term bank borrowings	867.838.524	145.916.626	160.073	-	-
Current Liabilities	**1.427.437.095**	**202.251.635**	**28.992.686**	**600.337.738**	**78.472**
Long-term bank borrowings	1.605.788.435	270.269.922	49.777	-	-
Long-term trade payables to related parties	12.412.854	2.089.636	-	-	-
Non-Current Liabilities	**1.618.201.289**	**272.359.558**	**49.777**	**-**	**-**
Total Liabilities	**3.045.638.384**	**474.611.193**	**29.042.463**	**600.337.738**	**78.472**
Net Foreign Currency Position	**(2.547.229.678)**	**(428.583.810)**	**2.809.927**	**(597.613.320)**	**1.594.701**
Total foreign currency amount of off-balance sheet derivative financial assets	2.472.231.330	416.186.548	-	-	-
Total foreign currency amount of off-balance sheet derivative financial liabilities	-	-	-	-	-
Net foreign currency position of derivative financial instruments (*)	**2.472.231.330**	**416.186.548**	**-**	**-**	**-**
Net foreign currency asset/ (liability) position	**(74.998.348)**	**(12.397.262)**	**2.809.927**	**(597.613.320)**	**1.594.701**
Fair Value of Financial Instruments Used for Foreign Exchange Hedge	166.361				
Hedged Amount of Foreign Currency Assets					
Hedged Amount of Foreign Currency Liabilities	**(2.472.231.330)**	**(416.186.548)**			
Export (**)	1.398.336.390	74.614.482	145.198.137	-	6.604.263
Import (**)	1.472.769.522	111.245.224	113.745.277	2.382.636.315	-

(*) As of 31 December 2019, the Company also has US Dollar buying / TL selling forward contract amounting to US Dollar 17.827.835, TL 77.756.500 selling, US Dollar 13.000.000 buying and TL 90.629.750 buying, US Dollar 13.000.000 selling options contract with barrier for the imports that will be realized in 2020 to hedge the foreign exchange risk.

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

26. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Cont'd)

(b) Market Risk (Cont'd)

Foreign exchange risk (cont'd)

	31 December 2018				
Foreign currency position table	**TL Equivalent (Functional currency)**	**US Dollar**	**Euro**	**JPY**	**GBP**
Cash and cash equivalents	40.689.887	7.606.496	40.991	233.096	62.334
Trade receivables	76.862.665	3.669.606	8.367.957	13.112.509	975.789
Other receivables	2.115	360	-	4.660	-
Trade receivables from related parties	17.341.800	-	2.876.135	93.772	-
Other receivables from related parties	1.122.456	-	186.207	-	-
Current Assets	**136.018.923**	**11.276.462**	**11.471.290**	**13.444.037**	**1.038.123**
Trade receivables	6.558	345	-	-	713
Non-Current Assets	**6.558**	**345**	**-**	**-**	**713**
Total Assets	**136.025.481**	**11.276.807**	**11.471.290**	**13.444.037**	**1.038.836**
Trade payables	216.884.851	6.035.114	29.831.212	102.548.632	65.416
Trade payables to related parties	241.870.422	36.564.214	7.478.779	93.121.928	-
Other payables	3.529.317	670.858	-	-	-
Other payables to related parties	999.098	43	-	21.008.086	-
Short-term portion of long-term bank borrowings	218.021.133	41.441.794	-	-	-
Current Liabilities	**681.304.821**	**84.712.023**	**37.309.991**	**216.678.646**	**65.416**
Long-term bank borrowings	2.103.717.190	399.877.814	-	-	-
Long-term trade payables to related parties	52.648.185	10.007.448	-	-	-
Non-Current Liabilities	**2.156.365.375**	**409.885.262**	**-**	**-**	**-**
Total Liabilities	**2.837.670.196**	**494.597.285**	**37.309.991**	**216.678.646**	**65.416**
Net Foreign Currency Position	**(2.701.644.715)**	**(483.320.478)**	**(25.838.701)**	**(203.234.609)**	**973.420**
Total foreign currency amount of off-balance sheet derivative financial assets	2.642.797.525	483.441.146	16.500.000	-	-
Total foreign currency amount of off-balance sheet derivative financial liabilities	-	-	-	-	-
Net foreign currency position of derivative financial instruments (*)	**2.642.797.525**	**483.441.146**	**16.500.000**	**-**	**-**
Net foreign currency asset/ (liability) position	**(58.847.190)**	**120.668**	**(9.338.701)**	**(203.234.609)**	**973.420**
Fair Value of Financial Instruments Used for Foreign Exchange Hedge	(39.018.266)	-	-	-	-
Hedged Amount of Foreign Currency Assets	**-**	**-**	**-**	**-**	**-**
Hedged Amount of Foreign Currency Liabilities	**(2.338.160.426)**	**(444.441.146)**	**-**	**-**	**-**
Export (**)	1.071.623.136	60.356.799	128.367.926	-	6.024.545
Import (**)	1.436.891.545	128.253.254	126.641.315	2.482.426.351	340

(*) As of 31 December 2018, the Company also has US Dollar buying / TL selling forward contract amounting to US Dollar 49.500.000, EUR buying / TL selling commodity swap contracts amounting to EUR 8.812.100, and US Dollar buying / TL selling F_USDTRY futures contract amounting to US Dollar 4.412.000 for the imports that will be realized in 2019 to hedge the foreign exchange risk.

(**) Rediscount of sales and purchases were not taken into consideration for the exports and imports balances denominated in foreign currency for the year ended 31 December 2019 and 2018. Exchange rates at the date of exports have been taken into consideration during computation of the export amounts in TL equivalent. Monthly average exchange rate was used in calculating the TL equivalent of imports.

26. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Cont’d)

(b) Market Risk (cont’d)

Foreign exchange risk (cont’d)

The Company is exposed to foreign exchange risk arising primarily with respect to transactions denominated in USD, Euro, GBP and JPY. The following table details the Company’s sensitivity to a 10% increase and decrease in the TL against USD, Euro, GBP and JPY. 10% is used in the reporting of currency risk to the key management and it represents the management’s expectation on the potential exchange rate fluctuations.

Sensitivity analysis can only be made on the year-end outstanding foreign currency denominated monetary items and it shows the year-end effects of the 10% of exchange currency fluctuation on the related items. The analysis includes foreign loans as well as loans that are denominated other than the creditors’ functional currency and used for the Company’s foreign transactions. Positive value represents an increase in profit/loss and other equity items.

Foreign currency sensitivity analysis table

	31 December 2019			
	Profit / Loss		Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Change in USD against TL by 10%				
1 - USD net asset / liability	(7.364.222)	7.364.222	(247.223.133)	247.223.133
2- Hedged USD (-)	-	-	247.223.133	(247.223.133)
3- USD net effect (1 +2)	**(7.364.222)**	**7.364.222**	-	-
Change in Euro against TL by 10%				
4 - Euro net asset / liability	1.868.770	(1.868.770)	-	-
5 - Hedged Euro (-)	-	-	-	-
6- Euro net effect (4+5)	**1.868.770**	**(1.868.770)**	**-**	**-**
Change in other currencies against TL by 10%				
7- Other currencies net asset / liability	(2.004.383)	2.004.383	-	-
8- Hedged other currencies (-)	-	-	-	-
9- Other currencies net effect (7+8)	**(2.004.383)**	**2.004.383**	**-**	**-**
TOTAL (3+6+9)	**(7.499.835)**	**7.499.835**	**-**	**-**

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

26. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Cont’d)

(b) Market Risk (cont’d)

Foreign exchange risk (cont’d)

Foreign currency sensitivity analysis table

	31 December 2018			
	Profit / Loss		Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Change in USD against TL by 10%				
1 - USD net asset / liability	63.374	(63.374)	(233.816.042)	233.816.042
2- Hedged USD (-)	-	-	233.816.042	(233.816.042)
3- USD net effect (1 +2)	**63.374**	**(63.374)**	**-**	**-**
Change in Euro against TL by 10%				
4 - Euro net asset / liability	(15.575.569)	15.575.569	-	-
5 - Hedged Euro (-)	9.946.200	(9.946.200)	-	-
6- Euro net effect (4+5)	**(5.629.369)**	**5.629.369**	**-**	**-**
Change in other currencies against TL by 10%				
7- Other currencies net asset / liability	(318.723)	318.723	-	-
8- Hedged other currencies (-)	-	-	-	-
9- Other currencies net effect (7+8)	**(318.723)**	**318.723**	**-**	**-**
TOTAL (3+6+9)	**(5.884.718)**	**5.884.718**	**-**	**-**

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

26. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Cont'd)

(b) Market Risk (cont'd)

Forward contracts

	Parity		Foreign currency		Contract value		Fair value	
Outstanding	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
forward contracts	**TL**		**US Dollar and Euro**		**TL**		**TL**	
TL Selling /USD Buying								
Less than 3 months	5,9912	5,7571	14.000.000	83.412.000	83.876.750	480.207.730	(54.124)	(30.778.670)
Between 3 - 6 months	6,2551	6,1827	3.827.835	9.500.000	23.943.595	58.735.800	99.842	(7.840.188)
TL Selling /Euro Buying								
Less than 3 months	-	6,1923	-	16.500.000	-	102.172.500	-	(399.408)
							45.718	**(39.018.266)**

	Parity		Foreign currency		Contract value		Fair value	
Outstanding	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
forward contracts	**TL**		**US Dollar and Euro**		**TL**		**TL**	
Option USD Selling								
Less than 3 months	6,4764	-	26.000.000	-	168.386.250	-	120.643	-
							120.643	**-**

The detail information on foreign currency denominated borrowings and cross currency swap transactions is given in disclosures of derivative financial instruments (Note 5).

(c) Funding Risk

The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders. The borrowings of the Company are from financially strong various financial institutions.

(d) Credit Risk

Credit risk arises from deposits with banks, as well as credit exposures to customers, including outstanding receivables. Ownership of financial assets involves the risk that counter parties may be unable to meet the terms of their agreements. The Company management covers these risks by limiting the aggregate risk from any individual counter party and if necessary by obtaining guarantee.

The Company uses internal credit control procedure, credit rating system and internal control policy for the credit risk management of receivables from customers. According to these procedures, the Company approves, increases or decreases individual customer credit limits for high balanced customers (excluding related parties). The credit limits are set by taking into account the financial position, past payment performance, the position of trade relations, growth potential and management style of the customers. These limits are annually revised, and letter of guarantees, mortgages and other guarantees are received for the high-risk customers.

Bank deposits, credit card receivables and derivative financial instruments are being held at reputable banks and financial institutions.

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

26. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Cont'd)

(d) Credit Risk (cont'd)

As of 31 December 2019, the credit risk regarding the financial instruments is as follows:

Credit risk regarding the financial instruments	**Receivables**							
	Trade Receivables		**Other Receivables**					
31 December 2019	**Related Parties**	**Third Parties**	**Related Parties**	**Third Parties(*)**	**Bank Deposits**	**Financial Investments**	**Derivative Financial Instruments**	**Other**
Maximum credit risk based on financial instruments as of reporting date	28.776.114	640.356.690	348.097	6.348.845	792.595.052	101.696.721	1.041.631.727	-
- Collateralized or secured with guarantees part of maximum credit risk	-	463.375.288	-	-	-	-	-	-
A. Net book value of not due or not impaired financial assets	13.179.708	585.166.423	348.097	6.348.845	792.595.052	101.696.721	1.041.631.727	-
B. Net book value of past due but not impaired financial assets	15.596.406	55.190.267	-	-	-	-	-	-
- Collateralized or guaranteed part	-	26.003.043	-	-	-	-	-	-
C. Net book value of impaired financial assets								
- Gross amount of overdue part	-	161.793.919	-	-	-	-	-	-
- Impairment (-)	-	(158.031.419)	-	-	-	-	-	-
- Collateralized or guaranteed part of net value	-	3.762.500	-	-	-	-	-	-
- Gross amount of not due part	-	-	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-	-	-
- Collateralized or guaranteed part of net value	-	-	-	-	-	-	-	-
D. Off-balance sheet items comprising credit risk	-	-	-	-	-	-	-	-

(*) Receivables from tax office and deposits & guarantees given are not included.

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

26. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Cont’d)

(d) Credit Risk (cont’d)

As of 31 December 2018, the credit risk regarding the financial instruments is as follows:

Credit risk regarding the financial instruments	**Receivables**						
	Trade Receivables		**Other Receivables**				
31 December 2018	**Related Parties**	**Third Parties**	**Related Parties**	**Third Parties(*)**	**Bank Deposits**	**Related Parties**	**Third Parties**
Maximum credit risk based on financial instruments as of reporting date	22.626.750	736.753.838	1.122.453	13.058.563	284.147.243	1.023.295.341	-
- Collateralized or secured with guarantees part of maximum credit risk	84.085	622.873.705	-	-	-	-	-
A. Net book value of not due or not impaired financial assets	5.194.218	688.670.113	1.122.453	13.058.563	284.147.243	1.023.295.341	-
B. Net book value of past due but not impaired financial assets	17.432.532	48.083.725	-	-	-	-	-
- Collateralized or guaranteed part	-	35.093.382	-	-	-	-	-
C. Net book value of impaired financial assets							
- Gross amount of overdue part	-	158.666.766	-	-	-	-	-
- Impairment (-)	-	(158.666.766)	-	-	-	-	-
- Collateralized or guaranteed part of net value	-	-	-	-	-	-	-
- Gross amount of not due part	-	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-	-
- Collateralized or guaranteed part of net value	-	-	-	-	-	-	-
D. Off-balance sheet items comprising credit risk	-	-	-	-	-	-	-

(*) Receivables from tax office and deposits & guarantees given are not included.

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

26. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Cont’d)

(d) Credit Risk (cont’d)

The Company assumes that its receivables from the related parties including the ones which are overdue bear no risk of collection since it takes into account that such receivables are to be collected from the companies and that all of such receivables had been collected in the previous period.

The aging table of the Company’s overdue but not impaired trade receivables including due from related parties is as follows:

	31 December 2019	31 December 2018
Between 0 - 1 months	50.733.564	35.378.877
Between 1 - 3 months	6.881.984	14.516.115
Between 3 - 12 months	13.171.125	15.621.265
	70.786.673	**65.516.257**

As of 31 December 2019, collaterals amounting to TL 26.003.043 have been received for receivables from third parties (31 December 2018: TL 35.093.382).

The Company calculates ECL’s based on previous year's credit losses experience, analysis of customers’ current financial situation and future expectations. The Company performs the ECL rate calculations separately for customers. The Company makes evaluations separately for export customers and other private customers and provides a provision where necessary. The Company has applied the doubtful receivable provision methodology by taking into consideration the dealers' remaining receivables after deducting existing collaterals, the credit risk score of the creditors evaluated by independent credit rating firms and payment history.

The tables below provide information on credit risk for trade receivables as of 31 December 2019 and 31 December 2018, credit losses, and exposure to ECL.

31 December 2019	**%**	**Gross Trade Receivables(*)**	**Doubtful Receivables Provision**
Domestic – Dealers	25%	548.030.474	137.380.714
Export Receivables	13%	73.143.480	9.428.156
Receivables from Automotive Manufacturers	1%	79.092.464	1.153.131
Domestic – Customers	9%	113.762.691	10.069.418
Trade Receivables from Related Parties	-	28.776.114	-
	19%	**842.805.223**	**158.031.419**

31 December 2018	**%**	**Gross Trade Receivables(*)**	**Doubtful Receivables Provision**
Domestic – Dealers	19%	771.018.126	142.744.648
Export Receivables	16%	55.182.358	8.886.134
Receivables from Automotive Manufacturers	1%	42.214.510	584.597
Domestic – Customers	15%	42.906.249	6.451.387
Trade Receivables from Related Parties	-	22.626.750	-
	17%	**933.947.993**	**158.666.766**

(*) Gross trade receivables do not include unearned credit finance income amounting to TL 15.641.000 (31 December 2018: TL 15.900.639).

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

26. NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Cont'd)

(e) Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

the Company monitors capital on the basis of the net debt/(equity+net debt) ratio. Net debt is calculated as total bank borrowings less cash and cash equivalents.

Capital risk management	**31 December 2019**	**31 December 2018**
Total bank borrowings	3.160.230.189	2.673.515.360
Less: Valuation difference due to hedging USD denominated bank borrowings	(1.008.865.166)	(776.642.688)
Less: Cash and cash equivalents	(792.595.257)	(284.147.243)
Less: Time deposits over 3 months maturity	(101.696.721)	-
Net financial debt	**1.257.073.045**	**1.612.725.429**
Equity	897.041.984	920.943.253
Equity + Net debt	**2.154.115.029**	**2.533.668.682**
Net financial debt / (Equity + Net financial debt) ratio	**0,58**	**0,64**

(f) Operational risk

Operational risk the is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, employees, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the activities of the Company. The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate distribution of duties and responsibilities, including independent authorization of transactions
- requirements for reconciliation and oversight of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risk identified
- requirements for reporting operational losses and proposed remedial action
- development of emergency plans
- training and professional development
- ethical and business standards
- risk mitigation remedies, including insurance where this is effective

Compliance with the Company standards is supervised by a periodic audit program conducted by Internal Audit. The results of the internal audit review are reported to the management of the relevant operational department and shared with the Audit Committee and senior management.

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

27. FINANCIAL INSTRUMENTS

Classes and fair values of financial instruments

31 December 2019	Financial assets shown at amortized cost	Financial liabilities shown at amortized cost	Fair value through other comprehensive income	Fair value through profit or loss	Carrying value	Note
Financial assets						
Cash and cash equivalents	792.595.257	-	-	-	792.595.257	3
Financial investments	101.696.721	-	-	-	101.696.721	3
Trade receivables	640.356.690	-	-	-	640.356.690	6
Receivables from related parties	29.124.211	-	-	-	29.124.211	6-25
Other receivables (*)	6.348.845	-	-	-	6.348.845	7
Derivative financial assets	-	-	1.041.631.727	-	1.041.631.727	5
	1.570.121.724	**-**	**1.041.631.727**	**-**	**2.611.753.451**	
Financial liabilities						
Financial liabilities	-	3.177.270.737	-	-	3.177.270.737	4
Trade payables	-	544.840.662	-	-	544.840.662	6
Payables to related parties	-	479.640.815	-	-	479.640.815	6-25
Derivative financial liabilities	-	-	1.063.961	-	1.063.961	5
	-	**4.201.752.214**	**1.063.961**	**-**	**4.202.816.175**	

Classes and fair values of financial instruments

31 December 2018	Financial assets shown at amortized cost	Financial liabilities shown at amortized cost	Fair value difference through other comprehensive income	Fair value difference through profit or loss	Carrying value	Note
Financial assets						
Cash and cash equivalents	284.147.243	-	-	-	284.147.243	3
Trade receivables	736.753.838	-	-	-	736.753.838	6
Receivables from related parties	23.749.203	-	-	-	23.749.203	6-25
Other receivables (*)	13.058.563	-	-	-	13.058.563	7
Derivative financial assets	-	-	1.022.390.231	905.110	1.023.295.341	5
	1.057.708.847	**-**	**1.022.390.231**	**905.110**	**2.081.004.188**	
Financial liabilities						
Financial liabilities	-	2.673.515.360	-	-	2.673.515.360	4
Trade payables	-	428.411.852	-	-	428.411.852	6
Payables to related parties	-	327.363.864	-	-	327.363.864	6-25
Derivative financial liabilities	-	-	48.541.062	2.147.360	50.688.422	5
	-	**3.429.291.076**	**48.541.062**	**2.147.360**	**3.479.979.498**	

(*) Receivables from tax office are not included.

27. FINANCIAL INSTRUMENTS (Cont’d)

Fair value of financial instruments

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

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

The following methods and assumptions were used to estimate the fair value of the financial instruments for which it is practicable to estimate fair value:

Monetary assets

Foreign currency denominated balances are translated into Turkish Lira at the forex buying exchange rates at the end of the period. It is foreseen that fair values are close to the carrying value.

The fair values of certain financial assets carried at cost, including cash and amounts due from banks, are considered to approximate their respective carrying values due to their short-term nature.

The carrying values of trade receivables along with the related allowances for uncollectibility are estimated to be their fair values.

Monetary liabilities

The fair values of bank borrowings and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

Since, long term foreign currency loans generally have floating rate, fair value is close to their book value. (Note 4).

Fair value estimation:

The Company’s financial instruments measured at fair value in the balance sheet reclassified as flows:

Level 1: Quoted prices in markets for assets and liabilities.

Level 2: Direct or indirect observable inputs for the assets or liabilities other than quoted prices in Market.

Level 3: Inputs for the assets and liabilities where observable market data cannot be determined.

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

27. FINANCIAL INSTRUMENTS (Cont’d)

Financial Assets /Financial Liabilities	Fair Value				Fair value Hierarchy	Valuation Technique	Significant unobservable inputs	Relationship of unobvservable inputs to fair value
	31 December 2019		**31 December 2018**					
	Assets	**Liabilities**	**Assets**	**Liabilities**				
Forward contracts	218.000	172.282	1.850.387	47.159.341	2	Discounted cash flow method : The future cash flows, predicted by forward foreign currency rate (observable forward foreign currency rates at reporting date) and the contracted rates, are discounted by a discount rate which indicates other parties credit risk.	-	-
Cross-currency swap	1.040.401.405	-	1.015.154.266	-	2	Discounted cash flow method : The future cash flows, predicted by forward foreign currency rate (observable forward foreign currency rates at reporting date) and the contracted rates, are discounted by a discount rate which indicates other parties credit risk.	-	-
Option	1.012.322	891.679	6.290.688	-	2	Discounted cash flow method : The future cash flows, predicted by forward foreign currency rate (observable forward foreign currency rates at reporting date) and the contracted rates, are discounted by a discount rate which indicates other parties credit risk.	-	-
Commodity swap	-	-	-	3.529.081	2	Discounted cash flow method	-	-

	Level 1	Level 2	Level 3
31 December 2019			
Fair value through other comprehensive income, (net)	-	1.040.567.766	-
31 December 2018			
Derivative financial instruments, (net)	-	972.606.919	-

28. EVENTS AFTER THE REPORTING PERIOD

None.