

**VESTEL BEYAZ EŐYA SANAYİ VE TİCARET
ANONİM ŐİRKETİ**

**CONVENIENCE TRANSLATION INTO ENGLISH OF
CONDENSED FINANCIAL STATEMENTS FOR THE
INTERIM PERIOD 1 JANUARY – 30 SEPTEMBER 2020**

(ORIGINALLY ISSUED IN TURKISH)

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE INTERIM PERIOD 1 JANUARY - 30 SEPTEMBER 2020

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- 30 SEPTEMBER 2020**

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VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
CONDENSED INTERIM BALANCE SHEETS AS OF 30 SEPTEMBER 2020 AND 31 DECEMBER 2019

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

		Audited	
	Footnotes	30 September 2020	31 December 2019
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	4	60.037	119.328
Trade Receivables		2.592.342	1.748.257
Trade Receivables Due From Related Parties	6	2.592.179	1.741.171
Trade Receivables Due From Third Parties	7	163	7.086
Other Receivables		1.034.248	630.205
Other Receivables Due From Related Parties	6	854.648	482.149
Other Receivables Due From Third Parties	8	179.600	148.056
Derivative Financial Assets		7.163	2.603
Derivative Financial Assets Held for Trading	26	5.676	2.603
Derivative Financial Assets Held for Hedging	26	1.487	-
Inventories	9	1.031.738	646.136
Prepayments		42.223	20.052
Prepayments to Third Parties	10	42.223	20.052
Other Current Assets		9.823	1.163
Other Current Assets Due From Third Parties	17	9.823	1.163
TOTAL CURRENT ASSETS		4.777.574	3.167.744

The accompanying notes are an integral part of these condensed interim financial statements.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
CONDENSED INTERIM BALANCE SHEETS AS OF 30 SEPTEMBER 2020 AND 31 DECEMBER 2019

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

			Audited
	Footnotes	30 September 2020	31 December 2019
NON-CURRENT ASSETS			
Other Receivables		6.457	3.748
Other Receivables Due From Third Parties		6.457	3.748
Property, Plant and Equipments		1.591.368	1.516.259
Land and Premises	11	192.824	192.824
Land Improvements	11	40.081	39.632
Buildings	11	431.989	435.552
Machinery and Equipments	11	868.685	771.383
Vehicles	11	277	168
Fixtures and Fittings	11	31.156	26.336
Leasehold Improvements	11	4.885	5.133
Construction in Progress	11	21.471	45.231
Right of Use Assets	12	125.954	61.947
Intangible Assets and Goodwill		210.088	180.509
Other Rights	13	151	165
Capitalized Development Costs	13	197.348	167.955
Other Intangible Assets	13	12.589	12.389
Prepayments		81.495	53.595
Prepayments to Third Parties	10	81.495	53.595
TOTAL NON-CURRENT ASSETS		2.015.362	1.816.058
TOTAL ASSETS		6.792.936	4.983.802

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VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
CONDENSED INTERIM BALANCE SHEETS AS OF 30 SEPTEMBER 2020 AND 31 DECEMBER 2019

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

			Audited
	Footnotes	30 September 2020	31 December 2019
LIABILITIES			
CURRENT LIABILITIES			
Current Borrowings		923.680	733.300
Current Borrowings from Related Parties		13.476	6.973
Lease Liabilities	5	13.476	6.973
Current Borrowings From Third Parties		910.204	726.327
Bank Loans	5	894.171	714.041
Lease Liabilities	5	16.033	12.286
Current Portion of Non-current Borrowings		57.644	13.342
Current Portion of Non-current Borrowings from Third Parties		57.644	13.342
Bank Loans	5	57.644	13.342
Trade Payables		2.758.647	2.069.922
Trade Payables to Related Parties	6	126.272	132.380
Trade Payables to Third Parties	7	2.632.375	1.937.542
Employee Benefit Obligations	16	45.603	42.926
Other Payables		199.303	70.291
Other Payables to Related Parties	6	199.303	70.291
Derivative Financial Liabilities		42.674	5.264
Derivative Financial Liabilities Held for Trading	26	16.565	5.264
Derivative Financial Liabilities Held for Hedging	26	26.109	-
Current Tax Liabilities, Current	24	1.671	504
Current Provisions		9.667	5.847
Other Current Provisions	14	9.667	5.847
Other Current Liabilities		81.809	50.322
Other Current Liabilities to Third Parties	17	81.809	50.322
TOTAL CURRENT LIABILITIES		4.120.698	2.991.718

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VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
CONDENSED INTERIM BALANCE SHEETS AS OF 30 SEPTEMBER 2020 AND 31 DECEMBER 2019

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

		Audited	
	Footnotes	30 September 2020	31 December 2019
NON-CURRENT LIABILITIES			
Long Term Borrowings		193.823	56.831
Long Term Borrowings From Related Parties		91.230	32.546
Lease Liabilities	5	91.230	32.546
Long Term Borrowings From Third Parties		102.593	24.285
Bank Loans	5	90.622	10.303
Lease Liabilities	5	11.971	13.982
Trade Payables		280	6.747
Trade Payables to Third Parties	7	280	6.747
Non-current Provisions		64.940	57.289
Non-current Provisions for Employee Benefits	16	64.940	57.289
Deferred Tax Liabilities	24	49.202	64.989
TOTAL NON-CURRENT LIABILITIES		308.245	185.856
TOTAL LIABILITIES		4.428.943	3.177.574

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VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
CONDENSED INTERIM BALANCE SHEETS AS OF 30 SEPTEMBER 2020 AND 31 DECEMBER 2019

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

			Audited
	Footnotes	30 September 2020	31 December 2019
EQUITY			
Equity Attributable to Owners of Parent		2.363.993	1.806.228
Issued Capital	18	190.000	190.000
Inflation Adjustments on Capital	18	9.734	9.734
Share Premium (Discount)	18	109.031	109.031
Other Accumulated Comprehensive Income (Loss) that will not be Reclassified in Profit or Loss		386.721	395.981
Gains (Losses) on Revaluation and Remeasurement		386.721	395.981
Increases (Decreases) on Revaluation of Property, Plant and Equipment		405.713	410.776
Gains (Losses) on Remeasurements of Defined Benefit Plans		(18.992)	(14.795)
Other Accumulated Comprehensive Income (Loss) that will be Reclassified in Profit or Loss		(19.205)	-
Gains (Losses) on Hedge		(19.205)	-
Gains (Losses) on Cash Flow Hedges		(19.205)	-
Restricted Reserves Appropriated From Profits		187.190	173.938
Legal Reserves	18	187.190	173.938
Prior Years' Profits or Losses	18	790.589	359.472
Current Period Net Profit Or Loss		709.933	568.072
TOTAL EQUITY		2.363.993	1.806.228
TOTAL LIABILITIES AND EQUITY		6.792.936	4.983.802

Financial statements for the period 1 January – 30 September 2020 were approved by the Board of Directors of Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. on 27 October 2020.

The accompanying notes are an integral part of these condensed interim financial statements.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
CONDENSED INTERIM STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR
THE PERIODS 1 JANUARY – 30 SEPTEMBER 2020 AND 2019

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

	Footnotes	1 January - 30 September 2020	1 January - 30 September 2019	1 July- 30 September 2020	1 July- 30 September 2019
PROFIT OR LOSS					
Revenue	19	6.043.224	4.995.815	2.532.846	1.792.497
Cost of Sales	19	(4.976.257)	(4.340.192)	(2.009.359)	(1.588.031)
GROSS PROFIT (LOSS) FROM COMMERCIAL OPERATIONS		1.066.967	655.623	523.487	204.466
GROSS PROFIT (LOSS)		1.066.967	655.623	523.487	204.466
General Administrative Expenses	21	(55.389)	(48.891)	(18.823)	(16.564)
Marketing Expenses	21	(83.606)	(73.045)	(33.691)	(27.141)
Research and Development Expense	21	(47.597)	(40.958)	(16.566)	(16.236)
Other Income from Operating Activities	22	411.558	213.354	206.318	49.638
Other Expenses from Operating Activities	22	(480.455)	(270.142)	(218.229)	(63.246)
PROFIT (LOSS) FROM OPERATING ACTIVITIES		811.478	435.941	442.496	130.917
PROFIT (LOSS) BEFORE FINANCING INCOME (EXPENSE)		811.478	435.941	442.496	130.917
Finance Income	23	379.583	281.441	162.601	71.317
Finance Costs	23	(487.113)	(275.855)	(249.574)	(73.649)
PROFIT (LOSS) FROM CONTINUING OPERATIONS, BEFORE TAX		703.948	441.527	355.523	128.585
Tax (Expense) Income, Continuing		5.985	3.758	3.690	(489)
Current Period Tax (Expense) Income	24	(3.335)	(2.341)	(1.693)	(667)
Deferred Tax (Expense) Income	24	9.320	6.099	5.383	178
PROFIT (LOSS) FROM CONTINUING OPERATIONS		709.933	445.285	359.213	128.096
PROFIT (LOSS)		709.933	445.285	359.213	128.096
Earnings Per Share with a TL 1 of Par Value	25	3,74	2,34	1,89	0,67

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VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
CONDENSED INTERIM STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR
THE PERIODS 1 JANUARY – 30 SEPTEMBER 2020 AND 2019

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

	1 January - 30 September 2020	1 January - 30 September 2019	1 July- 30 September 2020	1 July- 30 September 2019
OTHER COMPREHENSIVE INCOME				
Other Comprehensive Income that will not be Reclassified to Profit or Loss	(4.197)	(1.150)	(1.889)	(442)
Gains (Losses) on Remeasurements of Defined Benefit Plans	(5.247)	(1.437)	(2.362)	(552)
Taxes Relating to Components of Other Comprehensive Income that will not be Reclassified to Profit or Loss	1.050	287	473	110
Taxes Relating to Remeasurements of Defined Benefit Plans	1.050	287	473	110
Other Comprehensive Income that will be Reclassified to Profit or Loss	(19.205)	636	(10.383)	483
Other Comprehensive Income (Loss) Related with Cash Flow Hedges	(24.622)	815	(13.312)	619
Gains (Losses) on Cash Flow Hedges	(24.622)	815	(13.312)	619
Taxes Relating to Components of Other Comprehensive Income	5.417	(179)	2.929	(136)
Taxes Relating to Cash Flow Hedges	5.417	(179)	2.929	(136)
OTHER COMPREHENSIVE INCOME (LOSS)	(23.402)	(514)	(12.272)	41
TOTAL COMPREHENSIVE INCOME (LOSS)	686.531	444.771	346.941	128.137

The accompanying notes are an integral part of these condensed interim financial statements.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ**CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIODS 1 JANUARY – 30 SEPTEMBER 2020 AND 2019**

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

	Issued Capital	Inflation Adjustments on Capital	Share Premiums or Discounts	Increases (Decreases) on Revaluation of Property, Plant and Equipment	Gains (Losses) on Remeasurements of Defined Benefit Plans	Gains (Losses) on Revaluations and Remeasurements	Other Accumulated Comprehensive Income that will not be Reclassified in Profit or Loss	Cash Flow Hedges	Reserve Of Gains or Losses on Hedge	Other Accumulated Comprehensive Income that will be Reclassified in Profit or Loss	Restricted Reserves Appropriated From Profits	Prior Years' Profits or Losses	Net Profit or Loss	Retained Earnings	Equity attributable to owners of parent	Equity
Previous Period																
1 January -30 September 2019																
Equity at Beginning of Period	190.000	9.734	109.031	417.527	(7.569)	409.958	409.958	(636)	(636)	(636)	118.206	352.721	622.561	975.282	1.811.575	1.811.575
Transfers	-	-	-	-	-	-	-	-	-	-	55.732	566.829	(622.561)	(55.732)	-	-
Total Comprehensive Income (Loss)	-	-	-	(5.063)	(1.150)	(6.213)	(6.213)	636	636	636	-	5.063	445.285	450.348	444.771	444.771
Profit (Loss)	-	-	-	(5.063)	-	(5.063)	(5.063)	-	-	-	-	5.063	445.285	450.348	445.285	445.285
Other Comprehensive Income (Loss)	-	-	-	-	(1.150)	(1.150)	(1.150)	636	636	636	-	-	-	-	(514)	(514)
Dividends Paid	-	-	-	-	-	-	-	-	-	-	-	(566.828)	-	(566.828)	(566.828)	(566.828)
Equity at End of Period	190.000	9.734	109.031	412.464	(8.719)	403.745	403.745	-	-	-	173.938	357.785	445.285	803.070	1.689.518	1.689.518
Current Period																
1 January -30 September 2020																
Equity at Beginning of Period	190.000	9.734	109.031	410.776	(14.795)	395.981	395.981	-	-	-	173.938	359.472	568.072	927.544	1.806.228	1.806.228
Transfers	-	-	-	(5.063)	-	(5.063)	(5.063)	-	-	-	13.252	559.883	(568.072)	(8.189)	-	-
Total Comprehensive Income (Loss)	-	-	-	-	(4.197)	(4.197)	(4.197)	(19.205)	(19.205)	(19.205)	-	-	709.933	709.933	686.531	686.531
Profit (Loss)	-	-	-	-	-	-	-	-	-	-	-	-	709.933	709.933	709.933	709.933
Other Comprehensive Income (Loss)	-	-	-	-	(4.197)	(4.197)	(4.197)	(19.205)	(19.205)	(19.205)	-	-	-	-	(23.402)	(23.402)
Dividends Paid	-	-	-	-	-	-	-	-	-	-	-	(128.766)	-	(128.766)	(128.766)	(128.766)
Equity at End of Period	190.000	9.734	109.031	405.713	(18.992)	386.721	386.721	(19.205)	(19.205)	(19.205)	187.190	790.589	709.933	1.500.522	2.363.993	2.363.993

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VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
CONDENSED INTERIM STATEMENTS OF CASH FLOWS FOR THE PERIODS
1 JANUARY - 30 SEPTEMBER 2020 AND 2019

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

	Footnotes	1 January - 30 September 2020	1 January - 30 September 2019
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		397.466	303.436
Profit (Loss)		709.933	445.285
Profit (Loss) from Continuing Operations		709.933	445.285
Adjustments to Reconcile Profit (Loss)		305.078	79.126
Adjustments for Depreciation and Amortisation Expense	11,12,13	221.050	188.665
Adjustments for Impairment Loss (Reversal of Impairment Loss)		1.928	(1.671)
Adjustments for Impairment Loss (Reversal of Impairment Loss) of Inventories	9	1.928	(1.671)
Adjustments for Provisions		13.424	9.242
Adjustments for (Reversal of) Provisions Related with Employee Benefits	16	9.604	8.534
Adjustments for (Reversal of) Lawsuit and/or Penalty Provisions	14	3.820	708
Adjustments for Interest (Income) Expenses		25.936	(78.846)
Adjustments for Interest Income	23	(37.409)	(142.920)
Adjustments for Interest Expense	23	63.345	64.074
Adjustments for Unrealised Foreign Exchange Losses (Gains)		56.494	(3.282)
Adjustments for Fair Value Losses (Gains)		8.228	(15.735)
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments		8.228	(15.735)
Adjustments for Tax (Income) Expenses	24	(5.985)	(3.758)
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		(2.292)	(364)
Adjustments for Losses (Gains) Arised From Sale of Tangible Assets		(2.292)	(364)
Other Adjustments to Reconcile Profit (Loss)	4	(13.705)	(15.125)

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VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
CONDENSED INTERIM STATEMENTS OF CASH FLOWS FOR THE PERIODS
1 JANUARY - 30 SEPTEMBER 2020 AND 2019

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

	Footnotes	1 January - 30 September 2020	1 January - 30 September 2019
Changes in Working Capital		(608.177)	(213.948)
Adjustments for Decrease (Increase) in Trade Accounts Receivable		(844.085)	(183.199)
Decrease (Increase) in Trade Accounts Receivables from Related Parties	6	(851.008)	(184.272)
Decrease (Increase) in Trade Accounts Receivables from Third Parties	7	6.923	1.073
Adjustments for Decrease (Increase) in Other Receivables Related with Operations		(34.253)	21.964
Decrease (Increase) in Other Third Party Receivables Related with Operations	8	(34.253)	21.964
Adjustments for Decrease (Increase) in Inventories	9	(387.530)	(191.490)
Decrease (Increase) in Prepaid Expenses	10	(50.071)	(34.782)
Adjustments for Increase (Decrease) in Trade Accounts Payables		682.258	125.951
Increase (Decrease) in Trade Accounts Payables to Related Parties	6	(6.108)	47.526
Increase (Decrease) in Trade Accounts Payables to Third Parties	7	688.366	78.425
Increase (Decrease) in Employee Benefit Liabilities	16	2.677	10.801
Other Adjustments for Other Increase (Decrease) in Working Capital		22.827	36.807
Decrease (Increase) in Other Assets Related with Operations	17	(8.660)	(15.388)
Increase (Decrease) in Other Payables Related with Operations	17	31.487	52.195
Cash Flows from (used in) Operations		406.834	310.463
Payments Related with Provisions for Employee Benefits	16	(7.200)	(4.544)
Income Taxes refund (Paid)	24	(2.168)	(2.483)

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VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
CONDENSED INTERIM STATEMENTS OF CASH FLOWS FOR THE PERIODS
1 JANUARY - 30 SEPTEMBER 2020 AND 2019

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

	Footnotes	1 January - 30 September 2020	1 January - 30 September 2019
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		(680.257)	183.662
Proceeds from Sales of Property, Plant, Equipment and Intangible Assets		3.100	1.570
Proceeds from Sales of Property, Plant and Equipment		3.100	1.570
Purchase of Property, Plant, Equipment and Intangible Assets		(310.858)	(225.977)
Purchase of Property, Plant and Equipment	11	(256.664)	(183.329)
Purchase of Intangible Assets	13	(54.194)	(42.648)
Cash Advances and Loans Made to Other Parties		(372.499)	408.069
Cash Advances and Loans Made to Related Parties	6	(372.499)	408.069
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		209.795	(562.689)
Proceeds from Borrowings		1.569.984	1.068.188
Proceeds from Loans		1.569.984	1.068.188
Repayments of Borrowings		(1.321.531)	(1.042.173)
Loan Repayments		(1.321.531)	(1.042.173)
Decrease in Other Payables to Related Parties		129.012	(81.987)
Payments of Lease Liabilities		(24.098)	(17.284)
Dividends Paid	6	(128.766)	(566.828)
Interest Paid		(52.215)	(65.525)
Interest Received		37.409	142.920
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		(72.996)	(75.591)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(72.996)	(75.591)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	82.287	103.283
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	9.291	27.692

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VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE INTERIM PERIOD
1 JANUARY – 30 SEPTEMBER 2020

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 1 – COMPANY’S ORGANISATION AND NATURE OF OPERATIONS

Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. (the “Company” or “Vestel Beyaz Eşya”) was incorporated in 1997 under the Turkish Commercial Code and its head office is located at Levent 199, Büyükdere Caddesi No: 199, 34394 Şişli / İstanbul.

The Company started its operations in 1999 and produces refrigerators, freezers, room air conditioning units, washing machines, cookers, dishwashers and water heaters. The Company’s production facilities occupy 402.000 square meters of enclosed area located in Manisa Organized Industrial Zone on total area of 506.000 square meters.

The Company is a member of Vestel Group of Companies which are under the control of the Zorlu Family. The Company performs its foreign sales and domestic sales via Vestel Ticaret A.Ş. which is also a member of Vestel Group of Companies.

The Company is registered to Capital Market Board and its shares have been quoted to Borsa Istanbul (“BİST”) since 21 April 2006.

As of 30 September 2020, the number of personnel employed was 8.578 (31 December 2019: 7.821).

As of balance sheet dates, the shareholders of the Company and their percentage shareholdings were as follows:

	Shareholding %
Vestel Elektronik Sanayi ve Ticaret A.Ş.	92,53
Other shareholders	7,47
	100,00

As of 30 September 2020, 59.800.000 shares of the Company have been quoted at the Borsa Istanbul (“BİST”) (31,5 % of its share capital; 31 December 2019: 31,5 %).

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

2.1.1 Statement of compliance

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

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NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

The Company prepared its condensed interim financial statements for the period ended 30 September 2020 in accordance with (“TAS”) 34 “Interim Financial Reporting” in the framework of the Communiqué Serial II, No: 14.1, and its related announcement. The condensed interim financial statements and its accompanying notes are presented in compliance with the format recommended by CMB including its mandatory information.

In compliance with the TAS 34, entities have preference in presenting their interim financial statements whether full set or condensed. In this framework, the Company preferred to present its condensed financial statements.

The Company’s condensed interim financial statements do not include all disclosure and notes that should be included at year-end financial statements. Therefore the condensed interim financial statements should be read in conjunction with the financial statements as at 31 December 2019.

The Company maintains its accounting records and prepares its statutory financial statements in accordance with the Turkish Commercial Code (“TCC”), tax legislation and the uniform chart of accounts issued by the Ministry of Finance. The financial statements, except for the financial assets and liabilities presented with their fair values, are maintained under historical cost in TL. These financial statements are based on the statutory records which are maintained under historical cost conversion, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with the TAS/IFRS.

With the decision 11/367 taken on 17 March 2005, the CMB announced that, effective from 1 January 2005, the application of inflation accounting is no longer required for the companies operating in Turkey and preparing their financial statements in accordance with CMB Financial Reporting Standards. Accordingly, IAS 29, “Financial Reporting in Hyperinflationary Economies” issued by the IASB, has not been applied in the financial statements for the accounting year commencing from 1 January 2005.

2.2 Comparative information and restatement of prior period financial statements

Financial statements of the Company have been prepared comparatively with the preceding financial period, in order to enable determination of trends in financial position and performance. Comparative figures are reclassified, where necessary, to conform to changes in presentation in the financial statements.

2.3 Restatement and errors in the accounting estimates

Major changes in accounting policies are applied retrospectively and any major accounting errors that have been detected are corrected and the financial statements of the previous period are restated. Changes in accounting policies resulting from the initial implementation of a new standard, if any, are implemented retrospectively or prospectively in accordance with the transition provisions. If changes in accounting estimates are related to only one period, they are recognized in the period when changes are applied; if changes in estimates are related to future periods, they are recognized both in the period where the change is applied and future periods prospectively.

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NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.4. Amendments in Turkey Financial Reporting Standards

a) Standards issued but not yet effective and not early adopted as of 30 September 2020

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.

Classification of Liabilities as Current or Non-current (Amendments to TAS 1)

On 23 January 2020, IASB issued Classification of Liabilities as Current or Non-Current which amends IAS 1 Presentation of Financial Statements to clarify its requirements for the presentation of liabilities in the statement of financial position which is issued by POA on 12 March 2020 (Amendments to TAS 1).

The amendments clarify one of the criteria in TAS 1 for classifying a liability as non-current—that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

The amendments include:

- (a) Specifying that an entity’s right to defer settlement must exist at the end of the reporting period;
- (b) Clarifying that classification is unaffected by management’s intentions or expectations about whether the entity will exercise its right to defer settlement;
- (c) Clarifying how lending conditions affect classification; and
- (d) Clarifying requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

The Company shall apply retrospectively these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted. However, the amendment published on 15 July 2020, IASB decided to defer the effective date of IAS 1 until 1 January 2023.

The Company does not expect that application of these amendments to TMS 1 will have significant impact on its financial statements.

Covid-19 related rent concession (Amendments to TFRS 16)

In May 2020, IASB issued Covid-19 related rent concession which amends UFRS 16 Leases which is issued by POA on 5 June 2020 (Amendments to TFRS 16).

The amendments allow lessees not to account for rent concessions as lease modifications if they arise as a direct consequence of COVID-19.

The practical expedient will only apply if:

- the revised consideration is substantially the same or less than the original consideration;
- the reduction in lease payments relates to payments due on or before 30 June 2021
- no other substantive changes have been made to the terms of the lease.

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NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

No practical expedient is provided for lessors. Lessors are required to continue to assess if the rent concessions are lease modifications and account for them accordingly.

The Company shall apply these amendments for annual periods beginning on or after 1 June 2020 with earlier application permitted.

Reference to the Conceptual Framework (Amendments to UFRS 3)

In May 2020, IASB issued Reference to the Conceptual Framework, which made amendments to TFRS 3 Business Combinations.

The amendments updated UFRS 3 by replacing a reference to an old version of the Board’s Conceptual Framework for Financial Reporting with a reference to the latest version, which was issued in March 2018.

The Company shall apply these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted.

Property, Plant and Equipment—Proceeds before Intended Use (Amendments to IAS 16)

In May 2020, IASB issued Property, Plant and Equipment—Proceeds before Intended Use, which made amendments to IAS 16 Property, Plant and Equipment. The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

The amendments improve transparency and consistency by clarifying the accounting requirements—specifically, the amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

The Company shall apply these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted.

Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)

In May 2020, IASB issued Onerous Contracts—Cost of Fulfilling a Contract, which made amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

IASB developed amendments to IAS 37 to clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

The Company shall apply these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted.

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NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

Annual Improvements to TFRS Standards 2018–2020

Improvements to TFRSs

Annual Improvements to TFRSs - 2018–2020 Cycle for applicable standards issued in May 2020 are presented below. The amendments are effective as of 1 January 2022. Earlier application is permitted. The Company does not expect that application of these improvements to TFRSs will have significant impact on its financial statements.

TFRS 1 First-time Adoption of International Financial Reporting Standards

This amendment simplifies the application of TFRS 1 for a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent – i.e. if a subsidiary adopts TFRS Standards later than its parent and applies TFRS 1.D16(a), then a subsidiary may elect to measure cumulative translation differences for all foreign operations at amounts included in the financial statements of the parent, based on the parent’s date of transition to TFRS Standards. This amendment will ease transition to TFRS Standards for subsidiaries applying this optional exemption by i) reducing undue costs; and ii) avoiding the need to maintain parallel sets of accounting records.

TFRS 9 Financial Instruments

This amendment clarifies that – for the purpose of performing the “10 per cent test” for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf.

TFRS 16 Leases, Illustrative Example 13

The amendment removes the illustration of payments from the lessor relating to leasehold improvements. As currently drafted, this example is not clear as to why such payments are not a lease incentive. It will help to remove the potential for confusion in identifying lease incentives in a common real estate fact pattern.

Amendments are effective on 1 January 2020

Changes that have become effective and have been adopted for annual periods beginning on or after 1 January 2022.

The changes that become effective as of January 1, 2020 are as follows:

- 1-) The revised Conceptual Framework (Version 2018)
- 2-) Amendments to TFRS 3 - Definition of a Business

The application of the amendment in TFRS 3 did not have a significant impact on the financial statements of the Company.

- 3-) Amendments to TAS 1 and TAS 8 - Definition of Material

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NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

The application of the amendment to TAS 1 and TAS 8 does not have a significant impact on the financial statements of the Company.

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

The application of this amendment is not expected to have a significant impact on the financial statements of the Company.

2.5. Summary of significant accounting policies

2.5.1 Revenue

The Company recognizes revenue in accordance with TFRS 15 “Revenue from contracts with customers” standard by applying the following five step model:

- Identification of customer contracts
- Identification of performance obligations
- Determination of transaction price in the contract
- Allocation of price to performance obligations
- Recognition of revenue when the performance obligations are fulfilled.

Revenue from sale of goods is recognized when all the following conditions are satisfied:

- (a) The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations,
- (b) Company can identify each party’s rights regarding the goods or services to be transferred,
- (c) Company can identify the payment terms for the goods or services to be transferred,
- (d) The contract has commercial substance,
- (e) It is probable that Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer’s ability and intention to pay that amount of consideration when it is due.

2.5.2 Inventories

Inventories are recognized at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory. The Company uses moving weighted average method for costing.

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NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make a sale. When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in statement of income 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.

2.5.3 Property, plant and equipment

Land, land improvements and buildings are stated at fair value, based on valuations performed as at 31 December 2018 by professional independent valuer Çelen Kurumsal Gayrimenkul Değerleme ve Danışmanlık A.Ş.

Property, plant and equipment except for land, land improvements and buildings acquired before 1 January 2005 are carried at cost in the equivalent purchasing power of TL as at 31 December 2004 and items acquired after 1 January 2005 are carried at cost, less accumulated amortization and impairment losses, if any.

Any revaluation increase arising on the revaluation of such land, land improvements and buildings is credited in equity to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land, land improvements and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. Depreciation on revalued land improvements and buildings is charged to profit or loss.

Each period, the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the statements of comprehensive income) and the depreciation based on the asset’s original cost is transferred from revaluation reserves to the retained earnings. Land is not depreciated. Plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

Gains or losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and are included in the related income and expense accounts, as appropriate. On the disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to the retained earnings.

Subsequent costs such as repairs and maintenance or part replacement of plant and equipment are included in the asset’s carrying value or recognized as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company. All other costs are charged to the statements of comprehensive income during the financial period in which they are incurred.

The Company – as a lessee

At inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset. The Company assess whether:

- a) The contract involved the use of an identified asset – this may be specified explicitly or implicitly.
- b) The asset should be physically distinct or represent substantially all of the capacity of a physically distinct asset, if the supplier has a substantive substitution right, the asset is not identified.
- c) The Company has the right to obtain substantially all of the economic benefits from the use of an asset throughout the period of use; and
- d) The Company has the right to direct use of the asset, The Company concludes to have the right of use, when it is predetermined how and for what purpose the Company will use the asset. The Company has the right to direct use of asset if either:
 - i. The Company has the right to operate (or to have the right to direct others to operate) the asset over its useful life and the lessor does not have the rights to change the terms to operate or;
 - ii. The Company designed the asset (or the specific features) in a way that predetermines how and for what purpose it is used

At the actual commencement date of the contract, the company reflects a right-of-use asset and a lease liability in its financial statements.

The company rents various buildings, warehouses, forklifts and machinery. The duration of the leasing contracts for machine and equipment is usually 5 years; for building and warehouses is usually fixed from 2 to 10 years.

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NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

Lease Liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. Lease liabilities are discounted to present value by using the interest rate implicit in the lease if readily determined or with the Vestel Group Company’s incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise the following:

- a) Fixed payments, including in-substance fixed payments;
- b) Variable lease payments that depend on an index or a rate, initially measured using the index or rate as the commencement date.
- c) The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewable period if the Company is reasonably certain to exercise an extension option and penalties for early termination of a lease unless the Company is reasonably certain to terminate early.

After initial recognition, the lease liability is measured:

- a) Increasing the carrying amount to reflect interest on lease liability,
- b) Reducing the carrying amount to reflect the lease payments made and
- c) Remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

The duration of the contracts, which constitute the lease obligation of the company, varies between 1 - 10 years.

The Company – as a lessor

The Company’s activities as a lessor are not material.

Right of use assets:

The cost of the right-of-use asset comprises:

- a) the amount of the initial measurement of the lease liability,
- b) any lease payments made at or before the commencement date, less any lease incentives received,
- c) any initial direct costs incurred by the Company

To apply the cost model, the Company measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. The Company applies the depreciation requirements in TAS 16 Property, Plant and Equipment in depreciating the right-of-use asset.

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NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.5.4 Intangible assets

a) Research and development costs

Research costs are recognized as expense in the period in which they are incurred. An intangible asset arising from development (or from the development phase of an internal project) if and only if an entity can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete the intangible asset and use or sell it;
- Its 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
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development

Other development costs are recognized as expense as incurred. If it is not possible to distinguish the research phase from the development phase of an internal project, the entity treats the expenditure on that project as if it were incurred in the research phase only.

b) Rights and other intangible fixed assets

Rights and other intangible assets consist acquired computer software, computer software development costs and other identifiable rights. Rights and other intangible assets are recognized at their acquisition costs and are amortized on a straight line basis over their expected useful lives which are less than five years.

2.5.5 Financial instruments

a) Financial assets

The Company classifies its financial assets into the following specified categories: financial assets as at fair value through profit or loss, loans and receivables and available for sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

Financial assets carried at amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, whose payments are fixed or predetermined, which are not actively traded and which are not derivative instruments are measured at amortized cost.

The Company’s financial assets carried at amortized cost comprise “trade receivables” and “cash and cash equivalents” in the statement of financial position.

Company has applied simplified approach and used impairment matrix for the calculation of impairment on its receivables carried at amortized cost, since they do not comprise of any significant finance component. In accordance with this method, if any provision to the trade receivables as a result of a specific event, Company measures expected credit loss from these receivables by the life-time expected credit loss. The calculation of expected loss is performed based on the past experience of the Company and its expectations for the future indications.

Financial assets carried at fair value

Assets that are held by the management for collection of contractual cash flows and for selling the financial assets are measured at their fair value.

Impairment of financial assets

Impairment of the financial and contractual assets measured by using “Expected credit loss model”. The impairment model applies for amortized financial and contractual assets.

Company has preferred to apply “simplified approach” for the recognition of impairment losses on trade receivables, carried at amortised cost and that do not comprise of any significant finance component (those with maturity less than 12 months). In accordance with the simplified approach, Company measures the loss allowances regarding its trade receivables at an amount equal to “lifetime expected credit losses” except incurred credit losses in which trade receivables are already impaired for a specific reason.

b) Financial liabilities

Financial liabilities are measured initially at fair value. Transaction costs which are directly related to the financial liability are added to the fair value.

c) Derivative financial instruments and hedge accounting

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

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NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

The derivative instruments of the Company mainly consist of foreign exchange forward contracts. These derivative transactions which are treated as derivatives held for trading in the financial statements under risk accounting, do not generally qualify for hedge accounting under the specific rules. The fair value changes for these derivatives are recognised in the profit or loss statement.

Cash flow hedges:

As long as a cash flow hedge meets the qualifying criteria, the hedging relationship shall be accounted for as follows:

- (a) the separate component of equity associated with the hedged item (cash flow hedge reserve) is adjusted to the lower of the following (in absolute amounts):
 - (i) the cumulative gain or loss on the hedging instrument from inception of the hedge; and
 - (ii) the cumulative change in fair value (present value) of the hedged item (i.e. the present value of the cumulative change in the hedged expected future cash flows) from inception of the hedge.
- (b) the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised in other comprehensive income.
- (c) any remaining gain or loss on the hedging instrument is hedge ineffectiveness that shall be recognised in profit or loss.

2.5.6 Foreign currency transactions

Transactions in foreign currencies during the period are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary items denominated in foreign currencies are translated to TL at the rates prevailing on the balance sheet date. Exchange differences on foreign currency denominated monetary assets and liabilities are recognized in profit or loss in the period. Foreign exchange income and expenses arising from the translation of foreign currency based loans and deposits are recognized under financial income or financial expenses. On-monetary items which are denominated in foreign currency and measured with historical costs are translated using the exchange rates at the dates of initial transactions.

2.5.7 Provisions, contingent assets and liabilities

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

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

2.5.8 Related parties

Shareholders, key management personnel and board members, their close family members and companies controlled, jointly controlled or significantly influenced by them and Zorlu Holding Company companies are considered and referred to as related parties.

2.5.9 Taxation on income

Tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items directly recognized in equity. In that case, tax is recognized in shareholders’ equity.

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

Deferred tax 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.

Investment incentives that are conducive to payment of corporate taxes at reduced rates are subject to deferred tax calculation when there is reasonable assurance that the Company will benefit from the related incentive.

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.

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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.

2.5.10 Employee benefits

Employment termination benefits, as required by the Turkish Labor Law represent the estimated present value of the total reserve of the future probable obligation of the Company arising in case of the retirement of the employees. According to Turkish Labor Law and other laws applicable in Turkey, the Company is obliged to pay employment termination benefits to all personnel in cases of termination of employment without due cause, call for military service, be retired or death upon the completion of a minimum one year service. Provision for employment termination benefits as of 31 December 2019 is calculated in accordance with the assumptions used by the independent actuarial firm and is recorded in the financial statements at its net present value. Employment termination benefits are considered as being part of defined retirement benefit plan as per TAS 19. All actuarial gains and losses are recognized in statements of income.

2.5.11 Government grants

Government grants, including non-monetary grants at fair value, are recognized in financial statements when there is reasonable assurance that the entity will comply with the conditions attaching to them, and the grants will be received.

Incentives for research and development activities are recognized in financial statements when they are authorized by the related institutions.

2.5.12 Earnings per share

Earnings per share disclosed in the statement of income is determined by dividing net income attributable to equity holder of the parent by the weighted average number of such shares outstanding during the year concerned.

2.5.13 Statement of cash flows

In the statement of cash flows, cash flows are classified into three categories as operating, investment and financing activities. Cash flows from operating activities are those resulting from the Company’s production and sales activities. Cash flows from investment activities indicate cash inflows and outflows resulting from property, plant and equipments and financial investments. Cash flows from financing activities indicate the resources used in financing activities and the repayment of these resources. Cash and cash equivalents comprise of cash in hand accounts, bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash with maturities equal or less than three months.

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NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.5.14 Offsetting

All items with significant amounts and nature, even with similar characteristics, are presented separately in the financial statements. Insignificant amounts are grouped and presented by means of items having similar substance and function. When the nature of transactions and events necessitate offsetting, presentation of these transactions and events over their net amounts or recognition of the assets after deducting the related impairment are not considered as a violation of the rule of non-offsetting. As a result of the transactions in the normal course of business, revenue other than sales are presented as net if the nature of the transaction or the event qualify for offsetting.

2.5.15 Events after the balance sheet date

Events after the balance sheet date, announcements related to net profit or even declared after other selective financial information has been publicly announced; include all events that take place between the balance sheet date and the date when balance sheet was authorized for issue.

In the case that events require a correction to be made on the balance sheet date, the Company makes the necessary corrections to the financial statements. Moreover, the events that occur subsequent to the balance sheet date and that do not require a correction to be made are disclosed in accompanying notes, where the decisions of the users of financial statements are affected.

2.5.16 Going concern

The Company prepared financial statements in accordance with the going concern assumption.

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NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)

2.6. Critical accounting estimates and judgments

Preparation of financial statements requires the use of estimates and assumptions that may affect the amount of assets and liabilities recognized as of the balance sheet date, disclosures of contingent assets and liabilities and the amount of revenue and expenses reported. Although these estimates and assumptions rely on the Company management’s best knowledge about current events and transactions, actual outcomes may differ from those estimates and assumptions. Significant estimates of the Company management are as follows:

i. Revaluation of lands, buildings and land improvements

Land, land improvements and buildings are stated at fair value, based on valuations performed as at 31 December 2018 by professional independent valuer Çelen Kurumsal Gayrimenkul Değerleme ve Danışmanlık A.Ş. (Note 11).

As there were no recent similar buying/selling transactions nearby, revaluations of land were based on the method of reference comparison whereas revaluations of buildings and land improvements and machinery and equipment were based on the method of cost approach and based on the following valuation techniques and assumptions:

- Revaluations of land were based on the method of market approach whereas revaluations of buildings and land improvements were based on the method of cost approach, considering existing utilization of the aforementioned property, plant and equipments are consistent to the highest and best use approach.
- In the market reference comparison method, current market information was utilized, taking into consideration the comparable property in the market in recent past in the region, price adjustment was made within the framework of criteria that could affect market conditions, and accordingly an average m2 sale value was determined for the lands subject to the valuation. The similar pieces of land found were compared in terms of location, size, settlement status, physical conditions, real estate marketing firms were consulted for up-to-date valuation of the estate market, also, current information and experience of the professional valuation company was utilized.
- In the cost approach method, fair value of the buildings and land improvements was calculated by considering recent re-construction costs and related depreciation. In the cost approach method, above explained market reference comparison method was used in calculation of the land value, one of the components.

The carrying values of land, land improvements and buildings do not necessarily reflect the amounts that would result from the outcome of a sales transaction between independent parties.

As of initial recognition and as of balance sheet date, the Company performs impairment assessment for buildings and land improvements of which valuations are based on cost approach, accordance with the TAS 36 “Impairment of Assets”, and no impairment indicator is identified.

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NOTE 3 - SEGMENT REPORTING

Operating segments are identified on the same basis as financial information is reported internally to the Company’s chief operating decision maker. The Company Board of Directors has been identified as the Company’s chief operating decision maker who is responsible for allocating resources between segments and assessing their performances. The Company management determines operating segments by reference to the reports reviewed by the Board of Directors to make strategic decisions.

The Management believes that the Company operates in a single industry sector as the risks and returns for the activities do not show any material difference because the scope of activity covers only the production of white goods and the production processes and classes of customers are similar. As a result all information related to the industrial segment has been fully presented in the attached financial statements.

The Management has decided to use geographical segments for segment reporting considering the fact that risks and returns are affected by the differences in geographical regions.

Geographical segments

Segment revenue	1 January - 30 September 2020	1 January - 30 September 2019	1 July- 30 September 2020	1 July- 30 September 2019
Turkey	1.483.519	916.025	595.267	324.872
Europe	3.437.329	3.056.850	1.498.356	1.109.727
Other	1.131.750	1.027.669	443.171	360.005
Gross sales	6.052.598	5.000.544	2.536.794	1.794.604
Discounts (-)	(9.374)	(4.729)	(3.948)	(2.107)
Net sales	6.043.224	4.995.815	2.532.846	1.792.497

Other segment sales mainly comprise of sales to Asian and African countries.

The amount of export is TL 4.569.079 thousand for the period ended 30 September 2020. (1 January-30 September 2019: TL 4.084.519 thousand). Export sales are denominated in EURO, and USD as 94,2%, and 5,8% of total export respectively (1 January-30 September 2019: 93,2% EUR, 6,8% USD).

The carrying value of segment assets and costs incurred in order to obtain these assets are not separately disclosed since all assets of the company are located in Turkey.

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NOTE 4 – CASH AND CASH EQUIVALENTS

	30 September 2020	31 December 2019
Cash	419	228
Bank deposits		
- Demand deposits	8.872	82.059
Blocked deposits	50.746	37.041
Cash and cash equivalents	60.037	119.328

NOTE 5 – FINANCIAL LIABILITIES

	30 September 2020	31 December 2019
Short - term financial liabilities		
Short term bank loans	894.171	714.041
Short term portion of long term bank loans	57.644	13.342
Lease liabilities	29.509	19.259
	981.324	746.642
Long - term financial liabilities		
Long term bank loans	90.622	10.303
Lease liabilities	103.201	46.528
	193.823	56.831

Details of the Company's short term bank loans are given below:

	30 September 2020			31 December 2019		
	Weighted average of effective interest rates per annum	Original currency	TL Equivalent	Weighted average of effective interest rates per annum	Original currency	TL Equivalent
- EUR	2,63%	78.900	720.207	3,13%	82.089	545.940
- TL	15,06%	173.964	173.964	20,01%	168.101	168.101
			894.171			714.041

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NOTE 5 – FINANCIAL LIABILITIES (Cont’d)

Details of the Company’s long term bank loans are given below:

30 September 2020				31 December 2019		
Currency	Weighted average of effective interest rates per annum	Original currency	TL Equivalent	Weighted average of effective interest rates per annum	Original currency	TL Equivalent
- EUR	2,63%	3.344	30.528	-	-	-
- TL	15,06%	27.116	27.116	19,84%	13.342	13.342
Short term portion			57.644			13.342
- TL	15,06%	29.768	29.768	19,84%	10.303	10.303
- EUR	2,63%	6.667	60.854	-	-	-
Long term portion			90.622			10.303
			148.266			23.645

Guarantees given for the bank loans obtained are disclosed in note 14.

As of 30 September 2020 and 30 September 2019, reconciliation of net financial debt is as below:

	30 September 2020	30 September 2019
Net financial debt as of 1 January	721.186	550.421
Cash inflows from loans	1.569.984	1.068.188
Cash outflows from loan payments	(1.321.531)	(1.055.018)
Payments of lease liabilities	66.923	66.066
Unrealized Fx gain/loss	56.494	(4.393)
Accrued interest	(196)	1.884
Change in cash and cash equivalents	72.996	75.591
Net financial debt at the end of the period	1.165.856	702.739

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NOTE 6 – RELATED PARTY DISCLOSURES

a) Short term trade receivables from related parties

	30 September 2020	31 December 2019
Vestel Ticaret A.Ş.	2.592.179	1.742.304
	2.592.179	1.742.304
Unearned interest on receivables (-)	-	(1.133)
	2.592.179	1.741.171

The receivables result from the Company’s foreign and domestic sales performed via Vestel Ticaret A.Ş. which is also a member of Vestel Group Companies.

b) Short term trade payables to related parties

	30 September 2020	31 December 2019
Vestel Elektronik Sanayi ve Ticaret A.Ş.	93.533	57.962
Vestel Ticaret A.Ş.	-	6.216
Vestel Holland B.V.	32.322	67.598
Other related parties	528	637
	126.383	132.413
Unearned interest on payables (-)	(111)	(33)
	126.272	132.380

c) Other short term receivables from related parties

	30 September 2020	31 December 2019
Vestel Elektronik Sanayi ve Ticaret A.Ş.	854.648	482.149

As of 30 September 2020 the Company’s interest rate of other receivables in EUR and in USD are 5% and 7% respectively. (31 December 2019: EUR 5%, TL 21%)

d) Other short term liabilities to related parties

	30 September 2020	31 December 2019
Vestel Elektronik Sanayi ve Ticaret A.Ş.	199.303	70.291

The Company’s interest rate of other payables in TL is 16,5% (31 December 2019: EUR 5%, USD 7%).

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NOTE 6 – RELATED PARTY DISCLOSURES (Cont’d)

e) Lease liabilities to related parties

	30 September 2020	31 December 2019
Vestel Elektronik Sanayi ve Ticaret A.Ş.	104.706	39.519

As of 30 September 2020, short term lease liabilities to related parties is TL 13.476 thousand, long term lease liabilities to related parties is TL 91.230 thousand (31 December 2019: TL 6.973 thousand, TL 32.546 thousand).

f) Transactions with related parties

	1 January - 30 September 2020	1 January - 30 September 2019	1 July- 30 September 2020	1 July- 30 September 2019
Sales				
Vestel Ticaret A.Ş.	5.924.874	4.877.402	2.473.062	1.742.027
Vestel Elektronik Sanayi ve Ticaret A.Ş.	68.660	52.084	28.350	17.959
Other related parties	7	28	-	13
	5.993.541	4.929.514	2.501.412	1.759.999
Purchases and operating expenses				
Vestel Holland B.V.	183.308	138.753	83.526	34.169
Vestel Elektronik Sanayi ve Ticaret A.Ş.	325.883	241.276	135.414	86.434
Other related parties	21.477	16.759	3.527	8.719
	530.668	396.788	222.467	129.322
	1 January - 30 September 2020	1 January - 30 September 2019	1 July- 30 September 2020	1 July- 30 September 2019
Other operating income				
Vestel Ticaret A.Ş.	352.862	126.220	184.471	15.622
Other related parties	2.427	4.710	1.028	3.844
	355.289	130.930	185.499	19.466
Other operating expense				
Vestel Ticaret A.Ş.	4.013	81.776	(30.237)	67.009
Other related parties	18.636	2.622	7.728	1.549
	22.649	84.398	(22.509)	68.558
Dividend paid				
Vestel Elektronik Sanayi ve Ticaret A.Ş.	119.166	539.483	119.166	-
Public shares	9.600	27.345	9.600	-
	128.766	566.828	128.766	-

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NOTE 6 – RELATED PARTY DISCLOSURES (Cont’d)

	1 January - 30 September 2020	1 January - 30 September 2019	1 July- 30 September 2020	1 July- 30 September 2019
Financial income				
Vestel Elektronik Sanayi ve Ticaret A.Ş.	152.538	140.089	100.209	25.037
Other related parties	38	123	-	-
	152.576	140.212	100.209	25.037
Financial expense				
Vestel Elektronik Sanayi ve Ticaret A.Ş.	13.088	17.657	9.664	1.252
Other related parties	34	-	-	-
	13.122	17.657	9.664	1.252

g) Guarantees received from and given to related parties are disclosed in note 14.

h) Compensation paid to key management including directors, the Chairman of Board of Directors, general managers and assistant general managers

Compensation paid to key management for the nine months period ended 30 September 2020 is TL 6.340 thousand (1 January-30 September 2019: TL 4.121 thousand).

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NOTE 7 – TRADE RECEIVABLES AND PAYABLES

	30 September 2020	31 December 2019
Short - term trade receivables		
Trade receivables		
- Related parties (note 6)	2.592.179	1.742.304
- Other parties	760	6.096
Cheques and notes receivables	-	1.500
	2.592.939	1.749.900
Unearned interest expense (-)		
- Related parties (note 6)	-	(1.133)
- Other parties	-	(9)
Allowance for doubtful receivables (-)	(597)	(501)
Total short - term trade receivables	2.592.342	1.748.257

The Company provides allowance for doubtful receivables based on historical experience.

	30 September 2020	31 December 2019
Short term trade payables		
Trade payables		
- Related parties (note 6)	126.383	132.413
- Other parties	2.638.598	1.937.952
	2.764.981	2.070.365
Unearned interest income (-)		
- Related parties (note 6)	(111)	(33)
- Other parties	(6.223)	(410)
Total short term trade payables	2.758.647	2.069.922
Long term trade payables		
Trade payables		
- Other parties	280	6.856
	280	6.856
Unearned interest income (-)		
- Other parties	-	(109)
Total long term trade payables	280	6.747

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NOTE 8 – OTHER RECEIVABLES

	30 September 2020	31 December 2019
Short - term other receivables		
Other receivables from related parties (note 6)	854.648	482.149
Receivables from government agencies	166.642	139.045
Deposits and guarantees given	11.663	7.654
Other receivables	1.295	1.357
	1.034.248	630.205

NOTE 9 – INVENTORIES

	30 September 2020	31 December 2019
Raw materials	743.372	387.201
Work in process	17.533	10.816
Finished goods	272.244	249.142
	1.033.149	647.159
Provision for impairment on inventories (-)	(1.411)	(1.023)
	1.031.738	646.136

As of 30 September 2020 the Company does not have inventories pledged as security for liabilities (31 December 2019: None).

Cost of the inventory included in the cost of sales for the current period amounts to TL 4.286.095 thousand (1 January – 30 September 2019: TL 3.771.550 thousand).

Allocation of provision for impairment on inventories in terms of inventory type is as follows:

	30 September 2020	31 December 2019
Finished goods and merchandise	1.411	1.023
	1.411	1.023

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NOTE 9 – INVENTORIES (Cont'd)

Movement of inventory impairment on inventories is as follows:

	1 January - 30 September 2020	1 January - 30 September 2019
Opening balance, 1 January	1.023	2.194
Current year additions	1.928	2.498
Realised due to sale of inventory	(1.540)	(4.169)
Balance at 30 September	1.411	523

NOTE 10 – PREPAID EXPENSES

	30 September 2020	31 December 2019
Prepaid expenses in current assets		
Order advances given	22.482	11.170
Prepaid expenses	19.737	8.819
Business advances given	4	63
	42.223	20.052
Prepaid expenses in non-current assets		
Advances given for fixed asset purchases	78.207	52.981
Prepaid expenses	3.288	614
	81.495	53.595

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NOTE 11 – PROPERTY, PLANT AND EQUIPMENT

	1 January				30 September
	2020	Additions	Disposals	Transfer	2020
Cost or revaluation					
Land	192.824	-	-	-	192.824
Land improvements	40.998	531	-	-	41.529
Buildings	447.048	4.256	-	2.241	453.545
Leasehold improvements	10.907	818	(3)	89	11.811
Plant and machinery	1.763.514	219.121	(15.986)	41.099	2.007.748
Motor vehicles	626	179	(59)	-	746
Furniture and fixtures	76.719	7.421	(252)	4.659	88.547
Construction in progress	45.231	24.338	-	(48.098)	21.471
				-	
	2.577.867	256.664	(16.300)	(10)	2.818.221
Accumulated depreciation					
Land improvements	1.366	82	-	-	1.448
Buildings	11.496	10.060	-	-	21.556
Leasehold improvements	5.774	1.154	(2)	-	6.926
Plant and machinery	992.131	162.588	(15.656)	-	1.139.063
Motor vehicles	458	70	(59)	-	469
Furniture and fixtures	50.383	7.240	(232)	-	57.391
	1.061.608	181.194	(15.949)	-	1.226.853
Net book value	1.516.259				1.591.368

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NOTE 11 – PROPERTY, PLANT AND EQUIPMENT (Cont’d)

	1 January 2019	Additions	Disposals	Transfer	30 September 2019
Cost					
Land	192.824	-	-	-	192.824
Land improvements	40.833	165	-	-	40.998
Buildings	438.634	5.315	(715)	1.317	444.551
Leasehold improvements	10.100	320	-	410	10.830
Plant and machinery	1.499.154	132.598	(3.362)	55.980	1.684.370
Motor vehicles	600	26	-	-	626
Furniture and fixtures	69.513	3.649	(247)	2.334	75.249
Construction in progress	37.488	41.256	-	(60.126)	18.618
	2.289.146	183.329	(4.324)	(85)	2.468.066
Accumulated depreciation					
Land improvements	-	1.022	-	-	1.022
Buildings	-	8.579	(6)	-	8.573
Leasehold improvements	4.387	1.030	-	-	5.417
Plant and machinery	806.605	141.900	(3.158)	-	945.347
Motor vehicles	379	61	-	-	440
Furniture and fixtures	42.411	6.142	(233)	-	48.320
	853.782	158.734	(3.397)	-	1.009.119
Net book value	1.435.364				1.458.947

Additions to property, plant and equipment in the period 1 January – 30 September 2020 and 2019 mainly consist of machinery and equipment investments made to refrigerator, washing machine, cooker, dishwasher and air conditioner factories.

As of 30 September 2020, there are no pledges against the property, plant and equipments. (31 December 2019: None.)

Useful lives of property, plant and equipment is as follows:

	Useful life
Land improvements	8 - 35 years
Buildings	25 - 50 years
Leasehold improvements	5 years
Plant and machinery	5 - 20 years
Motor vehicles	5 years
Furniture and fixtures	5 - 10 years

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NOTE 11 – PROPERTY, PLANT AND EQUIPMENT (Cont’d)

Allocation of period depreciation and amortization expenses is as follows:

	1 January - 30 September 2020	1 January - 30 September 2019
Cost of sales	184.986	162.535
Research and development expenses	28.807	24.411
Marketing, selling and distribution expenses	5.611	457
General administrative expenses	1.646	1.262
	221.050	188.665

NOTE 12 – RIGHT OF USE ASSETS

	1 January 2020	Additions	Disposal	30 September 2020
Cost				
Land and buildings	43.353	75.127	-	118.480
Machinery	32.790	4.568	(2.198)	35.160
	76.143	79.695	(2.198)	153.640
Accumulated amortization				
Land and buildings	5.136	6.447	-	11.583
Machinery	9.060	9.241	(2.198)	16.103
	14.196	15.688	(2.198)	27.686
Net book value	61.947	64.007	-	125.954
	1 January 2019	Effect of change in accounting policies	Additions	30 September 2019
Cost				
Land and buildings	-	43.353	-	43.353
Machinery	-	30.487	-	30.487
	-	73.840	-	73.840
Accumulated amortization				
Land and buildings	-	-	3.719	3.719
Machinery	-	-	6.317	6.317
	-	-	10.036	10.036
Net book value	-	73.840	(10.036)	63.804

The buildings mainly consist of group leases and their maturity expires in 2038.

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NOTE 13 – INTANGIBLE ASSETS

	1 January				30 September
	2020	Additions	Disposals	Transfers	2020
Cost					
Rights	6.534	-	-	-	6.534
Development cost	301.527	52.684	(457)	-	353.754
Other intangible assets	20.328	1.510	-	10	21.848
	328.389	54.194	(457)	10	382.136
Accumulated amortization					
Rights	6.369	14	-	-	6.383
Development cost	133.572	22.834	-	-	156.406
Other intangible assets	7.939	1.320	-	-	9.259
	147.880	24.168	-	-	172.048
Net book value	180.509				210.088

	1 January				30 September
	2019	Additions	Disposals	Transfers	2019
Cost					
Rights	6.429	-	-	-	6.429
Development cost	244.701	42.046	(279)	-	286.468
Other intangible assets	16.127	602	-	85	16.814
	267.257	42.648	(279)	85	309.711
Accumulated amortization					
Rights	6.360	6	-	-	6.366
Development cost	107.534	18.822	-	-	126.356
Other intangible assets	6.496	1.067	-	-	7.563
	120.390	19.895	-	-	140.285
Net book value	146.867				169.426

Development costs, incurred by the Company on development projects relating to refrigerators, split air conditioners, washing machines, cookers and dish washers are capitalized as intangible assets when it is probable that costs will be recovered through future commercial activity and only if the cost can be measured reliably.

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NOTE 13 – INTANGIBLE ASSETS (Cont’d)

Useful lives of intangible assets are as follows:

	<u>Useful life</u>
Rights	3 - 15 years
Development cost	2 - 10 years
Other intangible assets	2 - 15 years

NOTE 14 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

a) Provisions

	30 September 2020	31 December 2019
Short - term provisions		
Provision for lawsuit risks	9.667	5.847
	9.667	5.847

b) Guarantees received by the Company

	30 September 2020	31 December 2019
Guarantee letters	31.003	27.573
Cheques and notes	1.470	1.330
Collaterals and pledges	8.674.897	5.605.504
	8.707.371	5.634.407

Vestel Elektronik Sanayi ve Ticaret A.Ş. and Vestel Ticaret A.Ş. has given guarantees to various banks on behalf of the Company for its forward contracts and bank borrowings.

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NOTE 14 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Cont’d)

c) Collaterals, pledges and mortgages (“CPM’s”) given by the Company are as follows:

CPM's given by the Group	USD ('000)	EUR ('000)	TL	TL Equivalent
30 September 2020				
A. CPM's given on behalf of its own legal entity	-	9.420	29.581	115.566
B. CPM's given on behalf of fully consolidated subsidiaries	-	-	-	-
C. CPM's given on behalf of third parties for ordinary course of business	-	-	-	-
D. Total amount of other CPM's given	1.008.139	32.031	854.695	9.018.632
i. Total amount of CPM's given on behalf of the parent company	722.288	-	614.636	6.254.257
ii. Total amount of CPM's given to on behalf of other group companies which are not in scope of B and C.	285.852	32.031	240.059	2.764.374
iii. Total amount of CPM's given on behalf of third parties which are not in scope of C.	-	-	-	-
Total	1.008.139	41.451	884.275	9.134.198

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NOTE 14 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Cont'd)

CPM's given by the Group	USD ('000)	EUR ('000)	TL	TL Equivalent
31 December 2019				
A. CPM's given on behalf of its own legal entity	-	2.000	29.100	42.401
B. CPM's given on behalf of fully consolidated subsidiaries	-	-	-	-
C. CPM's given on behalf of third parties for ordinary course of business	-	-	-	-
D. Total amount of other CPM's given	1.008.140	32.031	854.695	7.056.271
i. Total amount of CPM's given on behalf of the parent company	722.288	-	614.636	4.905.169
ii. Total amount of CPM's given to on behalf of other group companies which are not in scope of B and C.	285.852	32.031	240.059	2.151.102
iii. Total amount of CPM's given on behalf of third parties which are not in scope of C.	-	-	-	-
Total	1.008.140	34.031	883.795	7.098.672

The Company has given collaterals to various banks on behalf of Vestel Elektronik Sanayi and Ticaret A.Ş. Vestel Ticaret A.Ş. and Vestel Holland BV for their forward contracts and bank loans obtained.

Proportion of other CPM's given by the Company to its equity 382% as of 30 September 2020. (31 December 2019: 391%).

NOTE 15 – COMMITMENTS

As of the balance sheet date the Company has committed to realize exports amounting to USD 1.070.700 thousand (31 December 2019: USD 800.533 thousand) due to the export and investment incentive certificates obtained.

As of 30 September 2020 the Company has forward foreign currency purchase contract that amounts to TL 392.773 thousand, EUR 2.000 thousand and USD 219.404 thousand against forward foreign currency sales contract that amounts to USD 43.605 thousand, EUR 187.253 thousand and TL 105.914 thousand (31 December 2019: TL 289.370 thousand, EUR 61.191 thousand and USD 127.966 thousand against forward foreign currency sales contract that amounts to EUR 104.806 thousand, USD 60.682 thousand and TL 402.625 thousand sales contracts).

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NOTE 16 – EMPLOYEE BENEFITS

Liabilities for employee benefits:

	30 September 2020	31 December 2019
Due to personnel	33.547	32.176
Social security payables	12.056	10.750
	45.603	42.926

Long term provisions for employee benefits:

	30 September 2020	31 December 2019
Provision for employment termination benefits	64.940	57.289

Under Turkish law, the Company is required to pay employment termination benefits to each employee whose employment is terminated without due caus. In addition, under the existing Social Security Law No. 506, clause No. 60, amended by the Labor Laws dated 6 March 1981, No. 2422 and 25 August 1999, No. 4447, the Company is also required to pay termination benefits to each employee who has earned the right to retire by receiving termination indemnities.

The amount payable is the equivalent of one month’s gross salary for each year of service and is limited to a maximum of TL 7.117,17 TL/year as of 30 September 2020 (31 December 2019: TL 6.379,86 TL/year).

The provision for employee termination benefits is not funded.

The provision is calculated by estimating the present value of the future obligation of the company arising from retirement of employees. Turkish Accounting Standards No: 19 (“Employee Benefits”) requires actuarial valuation methods to be developed to estimate the enterprise’s obligation under defined employee plans. Accordingly actuarial assumptions were used in the calculation of the total liability which is described below:

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. An expected inflation rate and appropriate discount rate should both be determined, the net of these being real discount rate. Consequently in the accompanying financial statements as at 30 September 2020 the provision is calculated by estimating the present value of the future obligation of the company arising from retirement of employees. As of 30 September 2020 provision is calculated based on real discount rate of 5,21% (31 December 2019: 5,21%) assuming 7% annual inflation rate and 12,21% discount rate.

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NOTE 16 – EMPLOYEE BENEFITS (Cont’d)

The movements in the provision for employment termination benefit are as follows:

	1 January - 30 September 2020	1 January - 30 September 2019
Balance at 1 January	57.289	38.713
Increase during the year	4.053	3.596
Payments during the year	(7.200)	(4.544)
Actuarial (gain) /loss	5.247	1.437
Interest expense	5.551	4.938
Balance at 30 September	64.940	44.140

NOTE 17 – OTHER ASSETS AND LIABILITIES

	30 September 2020	31 December 2019
Other current assets		
VAT carried forward	173	97
Income and discount accruals	9.650	1.066
	9.823	1.163
Other current liabilities		
Taxes and dues payable	18.479	14.564
Advances received	53.577	32.442
Other	9.753	3.316
	81.809	50.322

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NOTE 18 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS

a) Paid in capital

	30 September 2020	31 December 2019
Shares of par value TL 1 each		
Issued share capital	190.000	190.000

As of 30 September 2020 and 31 December 2019 the shareholding structure is as follows:

	Shareholding		Amount	
	30 September 2020	31 December 2019	30 September 2020	31 December 2019
Vestel Elektronik Sanayi ve Ticaret A.Ş.	92,53%	95,18%	175.807	180.834
Shares held by public	7,47%	4,82%	14.193	9.166
	100,00%	100,00%	190.000	190.000

Vestel Elektronik Sanayi ve Ticaret A.Ş. sold 5,000,000 Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. shares on Borsa Istanbul on 29 June 2020 and 18,365 on 3 September 2020. Following the transaction, Vestel Elektronik Sanayi ve Ticaret A.Ş.'s share in Vestel Beyaz Eşya declined to 92,53%.

b) Adjustments to share capital

Adjustment to share capital (restated to 31 December 2004 purchasing power of money) is the difference between restated share capital and historical share capital.

	30 September 2020	31 December 2019
Adjustment to share capital	9.734	9.734

c) Share Premium

Share premium account refers the difference between par value of the company's shares and the amount of the company received for newly issued shares. The share premium account is disclosed under equity as a separate line item and may not be distributed. It may be used in capital increase.

	30 September 2020	31 December 2019
Share premium	109.031	109.031

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NOTE 18 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Cont’d)

d) Restricted reserves (“Legal reserves”)

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

	30 September 2020	31 December 2019
Legal reserves	187.190	173.938

e) Retained earnings

	30 September 2020	31 December 2019
Extraordinary reserves	694.202	282.356
Previous year’s profits	96.387	77.116
	790.589	359.472

f) Dividend distribution

For quoted companies dividends are distributed in accordance with the Communiqué Serial II -19.1 on “Principals Regarding Distribution of Interim Dividends” issued by the CMB effective from 1 February 2014.

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and in conformity with relevant legislations. The communiqué does not state a minimum dividend rate. Companies distribute dividends in accordance with the method defined in their dividend policy or articles of association. Additionally, dividend can be distributed in fixed or variable installments and dividend advances can be paid over the profit on interim financial statements.

Unless the general reserves that has to be appropriated in accordance with TCC or the dividend to shareholders as determined in the articles of association or dividend policy are set aside; no decision can be taken to set aside other reserves, to transfer reserves to the subsequent year or to distribute dividends to holders of usufruct right certificates, to board of directors members or to employees; and no dividend can be distributed to those unless the determined dividend to shareholders is paid in cash.

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NOTE 18 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Cont’d)

On the other hand, in accordance with the Articles of Association of the Company, up to 5% of retained earnings after dividend distribution could be allocated to the Board of Directors or used for certain reasons designated by the Board of Directors when necessary.

- Based on the approval of the General Assembly, up to %3 of retained earnings after dividend distribution could be allocated to plant investments designated in accordance with article of 468 in TCC,
- Up to %5 of retained earnings after dividend distribution could be allocated to the Board of Directors as necessary,
- Up to %5 of retained earnings after dividend distribution could be allocated to donations, bonuses etc.

In the Official Gazette dated 17 May 2020 and numbered 31130, “Communiqué on the Procedures and Principles Regarding the Implementation of Temporary Article 13 of the Turkish Commercial Code No.6102” was published. Provisional Article 13 added to the Turkish Commercial Code (“TCC”) numbered 6102 with Article 12 of Law numbered 7244 published in the Official Gazette dated 17 April 2020 and numbered 31102 stipulates that, “Companies can only distribute dividends up to 25% of their net profit for the 2019 fiscal year until 31 December 2020, they cannot distribute retained earnings from previous years or free reserve funds, the general assemblies of companies cannot grant the board of directors the authority to distribute advance dividends, and even if the general assembly adopted a dividend distribution resolution for the 2019 fiscal year, if the shareholders have not yet been paid or if only partial payments have been made, companies must postpone dividend payments exceeding 25% of their net profit until 31 December 2020.”

Based on the statement dated 3 June 2020, dividend distribution proposal amounting to TL 128.766 thousand has been accepted by the board of directors submitted for the approval of the General Assembly for 2019. The payment has been made in July 2020.

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NOTE 19 – REVENUE

	1 January - 30 September 2020	1 January - 30 September 2019	1 July- 30 September 2020	1 July- 30 September 2019
Domestic sales	1.483.519	916.025	595.267	324.872
Overseas sales	4.569.079	4.084.519	1.941.527	1.469.732
Gross sales	6.052.598	5.000.544	2.536.794	1.794.604
Less: Sales discounts	(9.374)	(4.729)	(3.948)	(2.107)
Net sales	6.043.224	4.995.815	2.532.846	1.792.497
Cost of sales	(4.976.257)	(4.340.192)	(2.009.359)	(1.588.031)
Gross profit	1.066.967	655.623	523.487	204.466

NOTE 20 – EXPENSES BY NATURE

	1 January - 30 September 2020	1 January - 30 September 2019	1 July- 30 September 2020	1 July- 30 September 2019
Raw materials, supplies and finished goods	4.315.914	3.881.426	1.789.178	1.394.794
Changes in finished goods, work in process and trade goods	(29.819)	(109.876)	(44.666)	(22.386)
Personnel expenses	430.282	349.325	170.503	126.506
Depreciation and amortization	221.050	188.665	75.832	65.312
Other	225.422	193.546	87.592	83.746
	5.162.849	4.503.086	2.078.439	1.647.972

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NOTE 21 – GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES, RESEARCH AND DEVELOPMENT EXPENSES

a) General administrative expenses:

	1 January - 30 September 2020	1 January - 30 September 2019	1 July- 30 September 2020	1 July- 30 September 2019
Personnel expenses	10.882	9.529	4.638	3.690
Consultancy and IT expenses	24.232	17.489	8.649	6.040
Rent and office expenses	3.851	5.440	1.343	1.769
Travelling expense	911	1.380	323	478
Energy expenses	654	698	163	259
Depreciation and amortization	1.646	1.262	563	419
External benefits and services	774	234	406	94
Other	12.439	12.859	2.738	3.815
	55.389	48.891	18.823	16.564

b) Marketing expenses:

Personnel expenses	20.029	15.485	7.774	5.765
Transportation expenses	34.205	40.399	11.180	14.730
Tax and duties	10.869	8.719	4.508	3.224
Insurance expenses	1.902	1.482	1.144	475
Depreciation and amortization	5.611	457	1.829	154
Other	10.990	6.503	7.256	2.793
	83.606	73.045	33.691	27.141

c) Research and development expenses:

Depreciation and amortization	28.807	24.411	9.604	8.892
Personnel expenses	6.936	6.436	2.513	2.275
Other	11.854	10.111	4.449	5.069
	47.597	40.958	16.566	16.236

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NOTE 22 – OTHER INCOME AND EXPENSE FROM OPERATING ACTIVITIES

a) Other operating income	1 January - 30 September 2020	1 January - 30 September 2019	1 July- 30 September 2020	1 July- 30 September 2019
Credit finance gains arising from trading activities	7.301	16.177	1.935	3.280
Foreign exchange gains arising from trading activities	381.561	192.389	199.379	45.141
Other income	22.696	4.788	5.004	1.217
	411.558	213.354	206.318	49.638
b) Other operating expenses				
	1 January - 30 September 2020	1 January - 30 September 2019	1 July- 30 September 2020	1 July- 30 September 2019
Debit finance charges arising from trading activities	595	17.447	175	2.694
Foreign exchange expenses arising from trading activities	470.020	230.200	216.286	53.318
Other expenses	9.840	22.495	1.768	7.234
	480.455	270.142	218.229	63.246

NOTE 23 – FINANCIAL INCOME AND FINANCIAL EXPENSE

a) Financial income:	1 January - 30 September 2020	1 January - 30 September 2019	1 July- 30 September 2020	1 July- 30 September 2019
Foreign exchange gains	162.444	22.762	103.055	3.995
Gains on derivative financial instruments	179.730	115.759	49.048	41.668
Interest income	37.409	142.920	10.498	25.654
	379.583	281.441	162.601	71.317

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NOTE 23 – FINANCIAL INCOME AND FINANCIAL EXPENSE (Cont’d)

b) Financial expense:

	1 January - 30 September 2020	1 January - 30 September 2019	1 July- 30 September 2020	1 July- 30 September 2019
Foreign exchange losses	194.047	37.297	106.858	(28.012)
Losses on derivative financial instruments	228.872	174.368	111.035	78.048
Interest expense	63.345	64.074	31.492	23.595
Other finance expenses	849	116	189	18
	487.113	275.855	249.574	73.649

NOTE 24 – TAXES ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)

	30 September 2020	31 December 2019
Corporation and income taxes	3.335	2.913
Prepaid taxes	(1.664)	(2.409)
Current income tax liabilities - net	1.671	504
Deferred tax liabilities	(49.202)	(64.989)
Deferred tax assets / (liabilities)	(49.202)	(64.989)

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 other exempt income. In addition to corporate taxes, companies should also calculate income withholding taxes on any dividends distributed at the rate of 15%, except for companies receiving dividends who are resident companies in Turkey. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

In Turkey, advance tax returns are filed on a quarterly basis at the rate of 20%, until the 14th day of the following month and paid until the 17th day. Advance tax returns files within the year are offset against corporate income tax calculated over the annual taxable corporate income.

According to the Corporate Tax Law, 50% of the capital gains arising from the sale of tangible assets and investments in equity shares owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity.

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

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NOTE 24 – TAXES ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Cont’d)

There is no procedure for a final and definitive agreement on tax assessments. Tax returns are filed between 1-25 April following the close of the accounting year to which they relate. Tax authorities may however examine such returns and the underlying accounting records and may revise assessment within five years.

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017, corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 30 September 2020 are calculated with 22% tax rate for the temporary differences which will be realized in 2020, and with 20% tax for those which will be realized after 2021 and onwards.

As of 1 January – 30 September 2020 and 2019 tax expense in the statement of income is as follows:

	1 January - 30 September 2020	1 January - 30 September 2019
Current period tax expense	(3.335)	(2.341)
Deferred tax benefit / (expense)	9.320	6.099
Total tax income	5.985	3.758

Due to modernization, plant extension and investments incentive documents in Manisa Organized Industrial Zone, the Company has reduced rate of corporate tax advantage.

Deferred tax assets and liabilities

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising between their financial statements prepared in accordance with CMB Communiqué II, No. 14.1 and their statutory financial statements. These temporary differences usually result from the recognition of revenue and expenses in different reporting periods for CMB Financial Reporting Standards and tax purposes.

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NOTE 24 – TAXES ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Cont’d)

The breakdown of cumulative temporary differences and the resulting deferred tax assets and liabilities provided using principal tax rate as of the balance sheet dates is as follows:

	Cumulative temporary differences		Deferred tax	
	30 September 2020	31 December 2019	30 September 2020	31 December 2019
Deferred tax assets				
Employment termination benefits	(64.940)	(57.289)	12.988	11.458
Maddi ve maddi olmayan duran varlıkların kayıtlı değerleri ile vergi matrahları arasındaki net fark	(47.076)	(12.900)	9.415	2.580
Provision for impairment on inventories	(1.411)	(1.023)	310	225
Derivative financial instruments	(42.674)	(5.264)	9.388	1.158
Other	(35.047)	(20.623)	7.711	4.537
			39.812	19.958
	Cumulative temporary differences		Deferred tax	
	30 September 2020	31 December 2019	30 September 2020	31 December 2019
Deferred tax liabilities				
Revaluation of tangible fixed assets	487.921	494.250	(82.208)	(83.474)
Derivative financial instruments	7.163	2.603	(1.576)	(573)
Other	23.775	6.609	(5.230)	(900)
			(89.014)	(84.947)
Deferred tax assets / (liabilities) - net			(49.202)	(64.989)

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NOTE 24 – TAXES ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Cont’d)

The movement of net deferred tax assets and liabilities is as follows:

	1 January - 30 September 2020	1 January - 30 September 2019
Opening balance, 1 January	(64.989)	(73.036)
Tax expense recognized in income statement	9.320	6.099
Recognized in shareholders' equity	6.467	108
Deferred tax liabilities at the end of the period, net	(49.202)	(66.829)

NOTE 25– EARNINGS PER SHARE

	1 January - 30 September 2020	1 January - 30 September 2019
Net (loss) / income attributable to equity holders of the parent	709.933	445.285
Weighted number of ordinary shares with a TL 1 of par value (thousand shares)	190.000	190.000
	3,74	2,34

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NOTE 26 – DERIVATIVE INSTRUMENTS

	30 September 2020		31 December 2019	
	Contract	Fair Value	Contract	Fair Value
	amount	Assets /	amount	Assets /
		(Liabilities)		(Liabilities)
<u>Derivative financial assets:</u>				
Held for trading				
Forward foreign currency transactions	112.481	5.676	673.575	2.603
Cash flow hedge				
Forward foreign currency transactions	319.347	1.487	-	-
<u>Derivative financial liabilities:</u>				
Held for trading				
Forward foreign currency transactions	567.776	(16.565)	782.893	(5.264)
Cash flow hedge				
Forward foreign currency transactions	1.124.532	(26.109)	-	-
	2.124.136	(35.511)	1.456.468	(2.661)

NOTE 27 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Foreign currency risk:

The Company is exposed to exchange rate risk due to its foreign currency denominated transactions. The main principle of foreign currency risk management is to maintain foreign exchange position at the level that minimizes the impact of foreign exchange fluctuations.

Derivative instruments are used in foreign currency risk management where necessary. In this respect the Company mainly prefers using foreign exchange forward contracts.

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NOTE 27 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont’d)

30 September 2020	USD	EUR	Other (TL Equivalent)	TL Equivalent
1. Trade receivables	4.475	163.934	10	1.531.357
2a. Monetary financial assets (including cash and cash equivalents)	- 312	- 5.914	- 125	- 56.545
2b. Non-monetary financial assets	-	-	-	-
3. Other	89.423	17.138	-	854.652
4. Current assets (1+2+3)	94.210	186.986	135	2.442.554
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	186	5.188	-	48.809
7. Other	-	-	-	-
8. Non-current assets (5+6+7)	186	5.188	-	48.809
9. Total assets (4+8)	94.396	192.174	135	2.491.363
10. Trade payables	146.169	107.874	349	2.126.321
11. Financial liabilities	-	82.244	-	750.735
12a. Other monetary liabilities	-	-	-	-
12b. Other non-monetary liabilities	-	-	-	-
13. Current liabilities (10+11+12)	146.169	190.118	349	2.877.056
14. Trade payables	-	-	-	-
15. Financial liabilities	-	6.667	-	60.854
16a. Other monetary liabilities	-	-	-	-
16b. Other non-monetary liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	-	6.667	-	60.854
18. Total liabilities (13+17)	146.169	196.785	349	2.937.910
19. Off-balance sheet derivative instruments/ net asset (liability) position (19a+19b)	175.799	(185.253)	-	(318.369)
19a. Hedged total assets	219.404	2.000	-	1.731.363
19b. Hedged total liabilities	(43.605)	(187.253)	-	(2.049.732)
20. Net foreign currency asset/ (liability) position (9-18+19)	124.026	(189.864)	(214)	(764.916)
21. Net foreign currency monetary asset/ (liability) position (=1+2a+5+6a-10-11-12a-14-15-16a)	(51.959)	(9.799)	(214)	(495.356)
22. Fair value of financial instruments used in foreign currency hedging	-	-	-	(35.511)
23. Export	36.647	580.502	-	4.569.079
24. Import	219.942	106.775	3.076	2.283.613

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NOTE 27 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont’d)

31 December 2019	USD	EUR	Other (TL Equivalent)	TL Equivalent
1. Trade receivables	12.086	170.908	-	1.208.434
2a. Monetary financial assets (including cash and cash equivalents)	142	17.555	47	117.642
2b. Non-monetary financial assets	-	6.302	-	41.912
3. Other	-	-	-	-
4. Current assets (1+2+3)	12.228	194.765	47	1.367.988
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	304	4.038	-	28.661
7. Other	-	-	-	-
8. Non-current assets (5+6+7)	304	4.038	-	28.661
9. Total assets (4+8)	12.532	198.803	47	1.396.649
10. Trade payables	150.059	100.787	1.812	1.563.486
11. Financial liabilities	-	82.089	-	545.940
12a. Other monetary liabilities	3.760	7.211	-	70.293
12b. Other non-monetary liabilities	-	-	-	-
13. Current liabilities (10+11+12)	153.819	190.087	1.812	2.179.719
14. Trade payables	-	905	-	6.019
15. Financial liabilities	-	-	-	-
16a. Other monetary liabilities	-	-	-	-
16b. Other non-monetary liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	-	905	-	6.019
18. Total liabilities (13+17)	153.819	190.992	1.812	2.185.738
19. Off-balance sheet derivative instruments/ net asset (liability) position (19a+19b)	67.283	(43.615)	-	109.609
19a. Hedged total assets	127.965	61.191	-	1.167.095
19b. Hedged total liabilities	(60.682)	(104.806)	-	(1.057.486)
20. Net foreign currency asset/ (liability) position (9-18+19)	(74.004)	(35.804)	(1.765)	(679.480)
21. Net foreign currency monetary asset/ (liability) position (=1+2a+5+6a-10-11-12a-14-15-16a)	(141.591)	(2.529)	(1.765)	(859.662)
22. Fair value of financial instruments used in foreign currency hedging	-	-	-	(2.661)
23. Export	69.357	841.762	-	5.747.833
24. Import	273.099	171.752	2.211	2.638.975

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NOTE 27 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont’d)

As of 30 September 2020 and 31 December 2019, sensitivity analysis of foreign exchange rate tables is presented below, secured portions include impact of derivative instruments.

	Gain / Loss		Equity	
	Foreign exchange appreciation	Foreign exchange depreciation	Foreign exchange appreciation	Foreign exchange depreciation
30 September 2020				
+/- 10% fluctuation of USD rate:				
USD net asset / liability	(40.570)	40.570	(40.570)	40.570
Secured portion from USD risk (-)	(6.806)	6.806	105.608	(105.608)
USD net effect	(47.376)	47.376	65.038	(65.038)
+/- 10% fluctuation of EUR rate:				
EUR net asset / liability	(8.945)	8.945	(8.945)	8.945
Secured portion from EUR risk (-)	(22.471)	22.471	(137.347)	137.347
EUR net effect	(31.416)	31.416	(146.292)	146.292
+/- 10% fluctuation of other currency rates:				
Other currencies net asset / liability	(21)	21	(21)	21
Other currency net effect	(21)	21	(21)	21
Total	(78.813)	78.813	(81.275)	81.275

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NOTE 27 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont’d)

	Gain / Loss		Equity	
	Foreign exchange appreciation	Foreign exchange depreciation	Foreign exchange appreciation	Foreign exchange depreciation
31 December 2019				
+/- 10% fluctuation of USD rate:				
USD net asset / liability	(84.108)	84.108	(84.108)	84.108
Secured portion from USD risk (-)	39.964	(39.964)	39.964	(39.964)
USD net effect	(44.144)	44.144	(44.144)	44.144
+/- 10% fluctuation of EUR rate:				
EUR net asset / liability	(1.682)	1.682	(1.682)	1.682
Secured portion from EUR risk (-)	(29.209)	29.209	(29.209)	29.209
EUR net effect	(30.891)	30.891	(30.891)	30.891
+/- 10% fluctuation of other currency rates:				
Other currencies net asset / liability	(177)	177	(177)	177
Secured portion from other currency risk (-)	-	-	-	-
Other currency net effect	(177)	177	(177)	177
Total	(75.212)	75.212	(75.212)	75.212

NOTE 28– SUBSEQUENT EVENTS

None.

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NOTE 29– OTHER MATTERS THAT MAY AFFECT THE FINANCIAL STATEMENTS OR TO BE EXPLAINED FOR THE FINANCIAL STATEMENTS TO BE INTERPRETABLE AND EXPLAINABLE

The necessary actions were taken by the management to minimize the possible effects of the COVID-19 pandemic on the Company's activities and financial status, which occurred in China at the end of 2019 and influenced the whole world. In order to avoid disruptions in the production processes, the raw material procurement processes were similar to the pre-pandemic period, considering the condition of the countries where the raw material was supplied. Production was suspended for a week during the peak of the pandemic.

With the start of normalization process in the countries where the Company exports goods, the desired level of demand is reached and it has contributed positively to the Company's financial stability. While preparing the interim financial statements dated 30 September 2020, the Company re-evaluated the effects of the COVID-19 pandemic and the estimates and assumptions used in the financials. Impairments that may occur in Company's assets have been evaluated and no impairment has been identified.