

**VESTEL BEYAZ EŞYA SANAYİ VE TİCARET
ANONİM ŞİRKETİ**

**CONVENIENCE TRANSLATION INTO ENGLISH OF
FINANCIAL STATEMENTS AT
1 JANUARY – 31 DECEMBER 2017
TOGETHER WITH INDEPENDENT AUDITOR’S REPORT**

(ORIGINALLY ISSUED IN TURKISH)



**CONVENIENCE TRANSLATION INTO ENGLISH OF
INDEPENDENT AUDITOR'S REPORT
ORIGINALLY ISSUED IN TURKISH**

To the Board of Directors of Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş.

A. Audit of the Financial Statements

1. Opinion

We have audited the accompanying financial statements of Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. (the "Company"), which comprise the statement of financial position (balance sheet) as at 31 December 2017 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements and a summary of significant accounting policies and financial statement notes.

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

2. Basis for Opinion

Our audit was conducted in accordance with the Standards on Independent Auditing (the "SIA") that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the "POA"). Our responsibilities under these standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We hereby declare that we are independent of the Company in accordance with the Ethical Rules for Independent Auditors (the "Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

3. Key Audit Matters

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

Key Audit Matter	How our audit addressed the key audit matter
<i>Measurement and accounting of derivative financial instruments designated as cash flow hedges</i> <i>(Refer to Note 2.4 and Note 27)</i>	
<p>The Company uses significant amount of derivative financial instruments to manage foreign currency risk due to its operations. Some of these financial instruments consist of derivative instruments classified as cash flow hedges.</p> <p>As of 31 December 2017, the total amount of cash flow hedged foreign exchange contracts amounting to TL 769.468 thousands and the fair value of these contracts recognized in shareholders' equity is TL 1.734 thousands.</p> <p>We focused on and consider this area as a key audit matter since the models for the effectiveness of derivative financial instruments designated as cash flow hedges by the Company includes complex calculations.</p>	<p>We performed the following audit procedures in relation to the measurement and accounting of derivative financial instruments designated as cash flow hedges:</p> <ul style="list-style-type: none">• We examined the models of the Company management related with the foreign currency cash flows originated from the operations of the Company with the help of our experts and we tested some transactions on which the cash flows are based in the related models on a sample basis.• We evaluated the accounting practices of such transactions, including the effects on equity and profit or loss.• We tested the existence and fair value of derivative instruments which are not due as of 31 December 2017 through the confirmation letters obtained from financial institutions on a sample basis.• We assessed the appropriateness and adequacy of disclosures in the notes to the financial statements related to the derivative financial instruments designated as cash flow hedges in accordance with the related accounting standards.



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

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

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

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

5. Auditor's Responsibilities for the Audit of the Financial Statements

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

Our aim is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance expressed as a result of an independent audit conducted in accordance with SIA is a high level of assurance but does not guarantee that a material misstatement will always be detected. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an independent audit conducted in accordance with SIA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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



- Assess the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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



B. Other Responsibilities Arising From Regulatory Requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from 1 January to 31 December 2017 period are not in compliance with the TCC and provisions of the Company's articles of association related to financial reporting.
2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.
3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor's report on the early risk identification system and committee was submitted to the Company's Board of Directors on 8 February 2018

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

Mehmet Karakurt, SMMM
Partner

İstanbul, 8 February 2018

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
BALANCE SHEETS AS OF 31 DECEMBER 2017 AND 31 DECEMBER 2016

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

		Audited	Audited
	Footnotes	31 December 2017	31 December 2016
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	4	73.679	12.829
Trade Receivables		1.045.883	1.186.044
Trade Receivables Due From Related Parties	6	1.038.802	1.182.807
Trade Receivables Due From Unrelated Parties	7	7.081	3.237
Other Receivables		645.195	336.710
Other Receivables Due From Related Parties	6	511.898	258.612
Other Receivables Due From Unrelated Parties	8	133.297	78.098
Derivative Financial Assets		4.009	26.404
Derivative Financial Assets Held for Trading	27	1.759	2.922
Derivative Financial Assets Held for Hedging	27	2.250	23.482
Inventories	9	500.180	244.446
Prepayments		13.803	11.066
Prepayments to Unrelated Parties	10	13.803	11.066
Current Tax Assets	25	1.250	-
Other Current Assets		5.941	1.212
Other Current Assets Due From Unrelated Parties	17	5.941	1.212
TOTAL CURRENT ASSETS		2.289.940	1.818.711

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

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
BALANCE SHEETS AS OF 31 DECEMBER 2017 AND 31 DECEMBER 2016

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

		Audited	Audited
	Footnotes	31 December 2017	31 December 2016
NON-CURRENT ASSETS			
Property, Plant and Equipments		553.202	327.965
Land and Premises	11	39.063	6.547
Land Improvements	11	844	875
Buildings	11	40.838	40.247
Machinery and Equipments	11	367.398	254.966
Vehicles	11	249	215
Fixtures and Fittings	11	17.689	15.028
Leasehold Improvements	11	4.070	3.144
Construction in Progress	11	83.051	6.943
Intangible Assets and Goodwill		118.214	97.030
Other Rights	12	19	22
Capitalized Development Costs	12	109.806	89.931
Other Intangible Assets	12	8.389	7.077
Prepayments		62.952	41.741
Prepayments to Unrelated Parties	10	62.952	41.741
Deferred Tax Asset	25	5.681	2.056
TOTAL NON-CURRENT ASSETS		740.049	468.792
TOTAL ASSETS		3.029.989	2.287.503

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

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
BALANCE SHEETS AS OF 31 DECEMBER 2017 AND 31 DECEMBER 2016

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

		Audited	Audited
	Footnotes	31 December 2017	31 December 2016
LIABILITIES			
CURRENT LIABILITIES			
Current Borrowings		281.926	26.407
Current Borrowings From Unrelated Parties		281.926	26.407
Bank Loans	5	281.476	26.407
Leasing Debts	5	450	-
Current Portion of Non-current Borrowings		70.051	15.691
Current Portion of Non-current Borrowings from Unrelated Parties		70.051	15.691
Bank Loans	5	70.051	15.691
Trade Payables		1.242.281	840.474
Trade Payables to Related Parties	6	40.744	23.448
Trade Payables to Unrelated Parties	7	1.201.537	817.026
Employee Benefit Obligations	16	26.671	23.763
Other Payables		64.507	52.999
Other Payables to Related Parties	6	64.507	52.999
Derivative Financial Liabilities		9.977	27.853
Derivative Financial Liabilities Held for Trading	27	5.993	27.853
Derivative Financial Liabilities Held for Hedging	27	3.984	-
Current Tax Liabilities, Current	25	-	3.185
Current Provisions		2.197	1.620
Other Current Provisions	14	2.197	1.620
Other Current Liabilities		8.697	10.249
Other Current Liabilities to Unrelated Parties	17	8.697	10.249
TOTAL CURRENT LIABILITIES		1.706.307	1.002.241

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

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
BALANCE SHEETS AS OF 31 DECEMBER 2017 AND 31 DECEMBER 2016

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

		Audited	Audited
	Footnotes	31 December 2017	31 December 2016
NON-CURRENT LIABILITIES			
Long Term Borrowings		179.514	206.611
Long Term Borrowings From Unrelated Parties		179.514	206.611
Bank Loans	5	178.968	206.611
Leasing Debts	5	546	-
Trade Payables		1.959	-
Trade Payables to Unrelated Parties	7	1.959	-
Other Payables		98.323	134.261
Other Payables to Related Parties	6	98.323	134.261
Non-current Provisions		31.749	24.459
Non-current Provisions for Employee Benefits	16	31.749	24.459
TOTAL NON-CURRENT LIABILITIES		311.545	365.331
TOTAL LIABILITIES		2.017.852	1.367.572

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

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
BALANCE SHEETS AS OF 31 DECEMBER 2017 AND 31 DECEMBER 2016

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

		Audited	Audited
	Footnotes	31 December 2017	31 December 2016
EQUITY			
Equity Attributable to Owners of Parent		1.012.137	919.931
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		(6.203)	(3.313)
Gains (Losses) on Revaluation and Remeasurement		(6.203)	(3.313)
Gains (Losses) on Remeasurements of Defined Benefit Plans	24	(6.203)	(3.313)
Other Accumulated Comprehensive Income (Loss) that will be Reclassified in Profit or Loss		(1.352)	18.786
Gains (Losses) on Hedge		(1.352)	18.786
Gains (Losses) on Cash Flow Hedges	24	(1.352)	18.786
Restricted Reserves Appropriated From Profits		111.627	77.019
Legal Reserves	18	111.627	77.019
Prior Years' Profits or Losses	18	304.066	193.669
Current Period Net Profit Or Loss		295.234	325.005
TOTAL EQUITY		1.012.137	919.931
TOTAL LIABILITIES AND EQUITY		3.029.989	2.287.503

Financial statements for the period 1 January – 31 December 2017 were approved by the Board of Directors of Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. on 8 February 2018. General Assembly and specified regulatory bodies have the right to make amendments to statutory financial statements after issue.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIODS
1 JANUARY - 31 DECEMBER 2017 AND 2016

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

		Audited 1 January - 31 December 2017	Audited 1 January - 31 December 2016
	Footnotes		
PROFIT OR LOSS			
Revenue	19	3.857.756	3.037.017
Cost of Sales	19	(3.363.747)	(2.546.704)
GROSS PROFIT (LOSS) FROM COMMERCIAL OPERATIONS		494.009	490.313
GROSS PROFIT (LOSS)		494.009	490.313
General Administrative Expenses	21	(48.918)	(47.395)
Marketing Expenses	21	(53.931)	(46.926)
Research and Development Expense	21	(36.959)	(31.351)
Other Income from Operating Activities	22	325.713	164.643
Other Expenses from Operating Activities	22	(195.302)	(142.519)
PROFIT (LOSS) FROM OPERATING ACTIVITIES		484.612	386.765
PROFIT (LOSS) BEFORE FINANCING INCOME (EXPENSE)		484.612	386.765
Finance Income	23	128.567	109.985
Finance Costs	23	(312.605)	(162.977)
PROFIT (LOSS) FROM CONTINUING OPERATIONS, BEFORE TAX		300.574	333.773
Tax (Expense) Income, Continuing Operations		(5.340)	(8.768)
Current Period Tax (Expense) Income	25	(3.164)	(18.751)
Deferred Tax (Expense) Income	25	(2.176)	9.983
PROFIT (LOSS) FROM CONTINUING OPERATIONS		295.234	325.005
PROFIT (LOSS)		295.234	325.005
Earnings Per Share with a TL 1 of Par Value	26	1,55	1,71

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

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIODS
1 JANUARY - 31 DECEMBER 2017 AND 2016

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

		Audited 1 January - 31 December 2017	Audited 1 January - 31 December 2016
	Footnotes		
OTHER COMPREHENSIVE INCOME			
Other Comprehensive Income that will not be			
Reclassified to Profit or Loss	24	(2.890)	373
Gains (Losses) on Remeasurements of Defined Benefit Plans		(3.613)	466
Taxes Relating to Components of Other Comprehensive Income			
that will not be Reclassified to Profit or Loss		723	(93)
Taxes Relating to Remeasurements of Defined Benefit Plans		723	(93)
Other Comprehensive Income that will be			
Reclassified to Profit or Loss	24	(20.138)	11.157
Other Comprehensive Income (Loss) Related with Cash Flow Hedges		(25.216)	13.946
Gains (Losses) on Cash Flow Hedges		(25.216)	13.946
Taxes Relating to Components of Other Comprehensive Income			
that will be Reclassified to Profit or Loss		5.078	(2.789)
Taxes Relating to Cash Flow Hedges		5.078	(2.789)
OTHER COMPREHENSIVE INCOME (LOSS)		(23.028)	11.530
TOTAL COMPREHENSIVE INCOME (LOSS)		272.206	336.535

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

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2017 AND 2016**

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

	Issued Capital	Inflation Adjustments on Capital	Share Premiums or Discounts	Gains (Losses) on Remeasurements of Defined Benefit Plans	Gains (Losses) 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 -31 December 2016															
Equity at Beginning of Period	190.000	9.734	109.031	(3.686)	(3.686)	(3.686)	7.629	7.629	7.629	57.354	180.316	163.895	344.211	714.273	714.273
Transfers	-	-	-	-	-	-	-	-	-	19.665	144.230	(163.895)	(19.665)	-	-
Total Comprehensive Income (Loss)	-	-	-	373	373	373	11.157	11.157	11.157	-	-	325.005	325.005	336.535	336.535
Profit (Loss)	-	-	-	-	-	-	-	-	-	-	-	325.005	325.005	325.005	325.005
Other Comprehensive Income (Loss)	-	-	-	373	373	373	11.157	11.157	11.157	-	-	-	-	11.530	11.530
Dividends Paid	-	-	-	-	-	-	-	-	-	-	(130.877)	-	(130.877)	(130.877)	(130.877)
Equity at End of Period	190.000	9.734	109.031	(3.313)	(3.313)	(3.313)	18.786	18.786	18.786	77.019	193.669	325.005	518.674	919.931	919.931
Current Period															
1 January -31 December 2017															
Equity at Beginning of Period	190.000	9.734	109.031	(3.313)	(3.313)	(3.313)	18.786	18.786	18.786	77.019	193.669	325.005	518.674	919.931	919.931
Transfers	-	-	-	-	-	-	-	-	-	34.608	290.397	(325.005)	(34.608)	-	-
Total Comprehensive Income (Loss)	-	-	-	(2.890)	(2.890)	(2.890)	(20.138)	(20.138)	(20.138)	-	-	295.234	295.234	272.206	272.206
Profit (Loss)	-	-	-	-	-	-	-	-	-	-	-	295.234	295.234	295.234	295.234
Other Comprehensive Income (Loss)	-	-	-	(2.890)	(2.890)	(2.890)	(20.138)	(20.138)	(20.138)	-	-	-	-	(23.028)	(23.028)
Dividends Paid	-	-	-	-	-	-	-	-	-	-	(180.000)	-	(180.000)	(180.000)	(180.000)
Equity at End of Period	190.000	9.734	109.031	(6.203)	(6.203)	(6.203)	(1.352)	(1.352)	(1.352)	111.627	304.066	295.234	599.300	1.012.137	1.012.137

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

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
STATEMENTS OF CASH FLOWS FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2017 AND 2016

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

	Footnotes	Audited 1 January - 31 December 2017	Audited 1 January - 31 December 2016
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		655.672	245.564
Profit (Loss)		295.234	325.005
Profit (Loss) from Continuing Operations		295.234	325.005
Adjustments to Reconcile Profit (Loss)		170.287	176.770
Adjustments for Depreciation and Amortisation Expense	11	111.746	91.066
Adjustments for Impairment Loss (Reversal of Impairment Loss)		907	(354)
Adjustments for Impairment Loss (Reversal of Impairment Loss) of Inventories	9	907	(354)
Adjustments for Provisions		11.270	10.992
Adjustments for (Reversal of) Provisions Related with Employee Benefits	16	10.693	10.730
Adjustments for (Reversal of) Lawsuit and/or Penalty Provisions	14	577	262
Adjustments for Interest (Income) Expenses		26.259	815
Adjustments for Interest Income	23	(21.605)	(22.028)
Adjustments for Interest Expense	23	47.864	22.843
Adjustments for Unrealised Foreign Exchange Losses (Gains)		43.440	30.838
Adjustments for Fair Value Losses (Gains)		(20.697)	35.851
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments		(20.697)	35.851
Adjustments for Tax (Income) Expenses		5.340	8.768
Adjustments for Losses (Gains) on Disposal of Non-Current Assets		(478)	(239)
Adjustments for Losses (Gains) Arised From Sale of Tangible Assets		(478)	(239)
Other Adjustments to Reconcile Profit (Loss)	4	(7.500)	(967)

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

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ
STATEMENTS OF CASH FLOWS FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2017 AND 2016

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

	Footnotes	Audited 1 January - 31 December 2017	Audited 1 January - 31 December 2016
Changes in Working Capital		204.766	(246.393)
Adjustments for Decrease (Increase) in Trade Accounts Receivable		140.161	(361.459)
Decrease (Increase) in Trade Accounts Receivables from Related Parties	6	144.005	(364.101)
Decrease (Increase) in Trade Accounts Receivables from Unrelated Parties	7	(3.844)	2.642
Adjustments for Decrease (Increase) in Other Receivables Related with Operations		(55.199)	20.139
Decrease (Increase) in Other Unrelated Party Receivables Related with Operations	8	(55.199)	20.139
Adjustments for Decrease (Increase) in Inventories	9	(256.641)	17.284
Decrease (Increase) in Prepaid Expenses	10	(23.948)	(38.749)
Adjustments for Increase (Decrease) in Trade Accounts Payable		403.766	109.824
Increase (Decrease) in Trade Accounts Payables to Related Parties	6	17.296	(1.750)
Increase (Decrease) in Trade Accounts Payables to Unrelated Parties	7	386.470	111.574
Increase (Decrease) in Employee Benefit Liabilities	16	2.908	3.709
Other Adjustments for Other Increase (Decrease) in Working Capital		(6.281)	2.859
Decrease (Increase) in Other Assets Related with Operations	17	(4.729)	(920)
Increase (Decrease) in Other Payables Related with Operations	17	(1.552)	3.779
Cash Flows from (used in) Operations		670.287	255.382
Payments Related with Provisions for Employee Benefits	16	(7.016)	(7.712)
Income Taxes refund (Paid)	25	(7.599)	(2.106)

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

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ

STATEMENTS OF CASH FLOWS FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2017 AND 2016

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

		Audited 1 January - 31 December 2017	Audited 1 January - 31 December 2016
	Footnotes		
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		(610.975)	(374.901)
Proceeds from Sales of Property, Plant, Equipment and Intangible Assets		3.280	2.870
Proceeds from Sales of Property, Plant and Equipment		3.280	2.870
Purchase of Property, Plant, Equipment and Intangible Assets		(360.969)	(119.159)
Purchase of Property, Plant and Equipment	11	(318.614)	(89.436)
Purchase of Intangible Assets	12	(42.355)	(29.723)
Cash Advances and Loans Made to Other Parties		(253.286)	(258.612)
Cash Advances and Loans Made to Related Parties	6	(253.286)	(258.612)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		8.653	52.512
Proceeds from Borrowings		653.271	442.600
Proceeds from Loans		652.275	442.600
Proceeds from Other Financial Borrowings		996	-
Repayments of Borrowings		(392.977)	(259.591)
Loan Repayments		(392.977)	(259.591)
Decrease in Other Payables to Related Parties	6	(50.987)	207
Dividends Paid	6	(180.000)	(130.877)
Interest Paid		(42.259)	(21.855)
Interest Received		21.605	22.028
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES		53.350	(76.825)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		53.350	(76.825)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	11.840	88.665
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		65.190	11.840

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

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

(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, room air conditioning units, washing machines, cookers, dishwashers and water heaters. The Company’s production facilities occupy 346.000 square meters of enclosed area located in Manisa Organized Industrial Zone on total area of 395.000 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 İstanbul (“BİST”) since 21 April 2006.

As of 31 December 2017, the number of personnel employed was 6.406 (31 December 2016: 6.008).

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.	94,62
Other shareholders	5,38
	100,00

As of 31 December 2017, 59.800.000 shares of the Company have been quoted at the Borsa İstanbul (“BİST”) (31,5 % of its share capital; 31 December 2016: 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 (“IFRIC”) issued by the Public Oversight Accounting and Auditing Standards Authority (“POAASA”) Turkish Accounting Standards Board.

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

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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

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 conversion 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, TAS 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. Amendments in Turkey Financial Reporting Standards

a) New standards, amendments and interpretations issued and effective for the financial year beginning 31 December 2017 and are adopted by the Company:

- **Amendments to IAS 7 ‘Statement of cash flows’** on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB’s Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.
- **Amendments IAS 12 ‘Income Taxes’**, effective from annual periods beginning on or after 1 January 2017. The amendments on the recognition of deferred tax assets for unrealized losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.
- **Annual improvements 2014–2016**, effective from annual periods beginning on or after 1 January 2017.
 - IFRS 12, ‘Disclosure of interests in other entities’; regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017. This amendment clarifies that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarized financial information.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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

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

b) Standards, amendments and interpretations effective after 1 January 2018

- **IFRS 9 ‘Financial instruments’**, effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.
- **Amendment to IFRS 9, ‘Financial instruments’**; effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortized cost is modified without this resulting in de-recognition, a gain or loss should be recognized immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.
- **IFRS 15 ‘Revenue from contracts with customers’**, effective from annual periods beginning on or after 1 January 2018. IFRS 15, ‘Revenue from contracts with customers’ is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.
- **Amendment to IFRS 15, ‘Revenue from contracts with customers’**, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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

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

- **IFRS 16 ‘Leases’**, effective from annual periods beginning on or after 1 January 2019 with earlier application permitted if IFRS 15, ‘Revenue from Contracts with Customers’, is also applied. This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a ‘right-of-use asset’ for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 15, 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.
- **Amendments to IFRS 2, ‘Share based payments’** on clarifying how to account for certain types of share-based payment transactions, effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay that amount to the tax authority.
- **Annual improvements 2014-2016**; effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:
 - IFRS 1, ‘First time adoption of IFRS’, regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19 and IFRS 10,
 - IAS 28, ‘Investments in associates and joint venture’ regarding measuring an associate or joint venture at fair value

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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

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

- **IFRIC 22, ‘Foreign currency transactions and advance consideration’**, effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.
- **IFRIC 23, ‘Uncertainty over income tax treatments’**, effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 ‘Income taxes’, are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 ‘Provisions, contingent liabilities and contingent assets’, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The Company will evaluate the effect of the aforementioned changes within its operations and apply changes starting from effective date.

- c) **Other new standards, amendments and interpretations issued and effective as of 1 January 2017 have not been presented since they are not relevant to the operations of the Company or have insignificant impact on the financial statements.**

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)**2.4. Summary of significant accounting policies****2.4.1 Revenue**

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

Revenue from the sale of goods shall be recognized when all the following conditions have been satisfied:

- The Company has transferred to the buyer significant risks and reward of ownership of the goods,
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold,
- The amount of revenue can be measured reliably,
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2.4.2 Inventories

Inventories are stated 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. Company uses moving weighted average method for costing.

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.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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

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

2.4.3 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided on restated amounts of property, plant and equipments using the straight-line method based on the estimated useful lives of the assets, except for land due to their indefinite useful life.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use.

Gains or losses on disposals of property, plant and equipment are included in other operating income and other operating expense.

Costs, such as repairs and maintenance or part replacement of tangible assets, are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits with the item will flow to the Company. All other costs are charged to statements of profit or loss during the financial year in which they are incurred.

2.4.4 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

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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

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

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.

2.4.5 Financial instruments

a) Financial assets

The Company classifies its financial assets in the following categories: Financial assets at fair value through profit or loss, loans and receivables. The classification depends on the purpose for which the financial assets were acquired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified in this category. Loans and receivables (trade and other receivables, bank deposits, cash and others) are measured at amortized cost using the effective interest method less any impairment. Interest income is recognized by applying the effective interest rate, except for cases when the recognition of interest would be immaterial.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)**Impairment of financial assets**

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

For financial assets carried at amortized cost, if the amount of a past impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the impairment is reversed through profit or loss. However, the carrying amount should not be increased to an amount that exceeds what the amortized cost would have been at the date of the reversal had the impairment not been recognized.

For financial assets carried at cost, if there is objective evidence of impairment, the amount of the impairment loss is measured as the difference between carrying amount and the present value of estimated future cash flows discounted at the current rate of return for a similar financial asset. Once an impairment loss has been recognized on a financial asset recognized at cost, it is not permitted to recognize a reversal.

b) Financial liabilities

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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

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

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method plus the interest expense recognized on an effective yield basis.

The effective interest method is calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate discounts the estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

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. Fair values of derivatives are carried as assets when positive and as liabilities when negative. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so the nature of the item being hedged.

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

Derivative financial instruments held for trading

Company’s held for trading derivative financial instruments consist of forward foreign currency purchase and sale contracts. Such derivative financial instruments providing effective protection against the risk for the Company economically and due to meeting the conditions for hedge accounting usually, they are accounted as derivative financial instruments held for trading in financial statements. The fair value changes of these derivative instruments are recognized in income statement as financial income / expense.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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

NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)**Cash flow hedges:**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity within cash flow hedge reserves. The gain or loss relating to the ineffective portion is recognized immediately in the statement of comprehensive income within finance income/ expense. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place or portion related to the accrued interest). When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized, in the statement of comprehensive income within finance income/ expense. The Company has evaluated its forward contracts and recognized certain contracts as hedging derivative instruments since they have been carrying necessary hedging conditions regarding to TAS 39.

2.4.6 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 in which they arise except for the effective portion of the foreign currency hedge of net investments in foreign operations. 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.

2.4.7 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.

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.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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

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

2.4.8 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 Group companies are considered and referred to as related parties.

2.4.9 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 Group 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.

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.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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

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

2.4.10 Employee benefits

Employment termination benefits, as required by the Turkish Labor Law and the laws applicable in the countries where the subsidiaries operate, 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 2017 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.

2.4.11 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.

2.4.12 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.

2.4.13 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.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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NOTE 2 – BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont’d)**2.4.14 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.

2.4.15 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.

2.4.16 Going concern

The Group prepared consolidated financial statements in accordance with the going concern assumption

2.5. 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.

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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

	1 January - 31 December 2017	1 January - 31 December 2016
Segment revenue		
Turkey	1.029.225	751.305
Europe	1.974.695	1.659.173
Other	866.821	638.356
Gross sales	3.870.741	3.048.834
Discounts (-)	(12.985)	(11.817)
Net sales	3.857.756	3.037.017

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

The amount of export is 2.841.516 thousand TL for the period ended 31 December 2017. (1 January-31 December 2016: 2.297.529 thousand TL). Export sales are denominated in EURO, and USD as 96,3%, and 3,7% of total export respectively (1 January-31 December 2016: 98,2% EUR, 1,8% 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.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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NOTE 4 – CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash	178	182
Bank deposits		
- Demand deposits	65.012	1.242
- Time deposits	-	3.951
Cheques and notes	-	6.465
Blocked deposits	8.489	989
Cash and cash equivalents	73.679	12.829

Effective interest rates

	31 December 2017	31 December 2016
TL	-	9,50%
EUR	-	0,60%

As of 31 December 2016 the Company’s time deposits have an average maturity of less than 1 month.

NOTE 5 – FINANCIAL LIABILITIES

	31 December 2017	31 December 2016
Short - term financial liabilities		
Short term bank loans	281.476	26.407
Short term portion of long term bank loans	70.051	15.691
Leasing debts	450	-
	351.977	42.098
Long - term financial liabilities		
Long term bank loans	178.968	206.611
Leasing debts	546	-
	179.514	206.611

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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NOTE 5 – FINANCIAL LIABILITIES (Cont’d)

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

31 December 2017				31 December 2016		
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	1,59%	49.693	224.389	-	-	-
- TL	16,69%	57.087	57.087	10,52%	26.407	26.407
			281.476			
						26.407

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

31 December 2017				31 December 2016		
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	4,21%	5.262	23.759	4,43%	1.697	6.295
- TL	14,18%	46.292	46.292	16,06%	9.396	9.396
Short term portion			70.051			
- EUR	3,80%	37.319	168.514	3,67%	42.370	157.189
- TL	16,06%	10.454	10.454	14,51%	49.422	49.422
Long term portion			178.968			
			249.019			222.302

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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NOTE 5 – FINANCIAL LIABILITIES (Cont’d)

The redemption schedule of the Company’s long term bank loans are given below:

	31 December 2017	31 December 2016
One to two years	178.968	197.654
Two to three years	-	8.957
	178.968	206.611

As of 31 December 2017 the Company does not have floating rate loans. (31 December 2016: 6.295 thousand TL).

Fair value of short term bank borrowings are considered to approximate their carrying values due to immateriality of discounting. Fair values are determined using average effective annual interest rates. Long term bank borrowings are stated at amortized cost using effective interest rate method and their fair values are considered to approximate their carrying values since loans usually have a re-pricing period of six months.

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

As of 31 December 2017 and 2016, reconciliation of net financial debt is as below:

	31 December 2017	31 December 2016
Net financial debt as of 1 January	235.880	(28.198)
Cash inflows from loans	652.275	442.600
Cash outflows from loan payments	(392.977)	(259.591)
Cash inflow/outflow from other financial debts	996	-
Unrealized Fx gain/loss	16.883	4.223
Accrued interest	5.605	988
Change in cash and cash equivalents	(60.850)	75.858
Net financial debt as of 31 December	457.812	235.880

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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NOTE 6 – RELATED PARTY DISCLOSURES

a) Short term trade receivables from related parties

	31 December 2017	31 December 2016
Vestel Ticaret A.Ş.	1.046.054	1.188.788
	1.046.054	1.188.788
Unearned interest on receivables (-)	(7.252)	(5.981)
	1.038.802	1.182.807

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

	31 December 2017	31 December 2016
Vestel Elektronik Sanayi ve Ticaret A.Ş.	32.239	21.839
Vestel Ticaret A.Ş.	6.355	-
Vestel Holland B.V.	1.534	120
Other related parties	1.044	1.690
	41.172	23.649
Unearned interest on payables (-)	(428)	(201)
	40.744	23.448

c) Other short term receivables from related parties

	31 December 2017	31 December 2016
Vestel Elektronik Sanayi ve Ticaret A.Ş.	511.898	258.612

The Company’s interest rate of other receivables in TL is 18% (31 December 2016: %15)

d) Other short term liabilities to related parties

	31 December 2017	31 December 2016
Vestel Elektronik Sanayi ve Ticaret A.Ş.	64.507	52.999

The Company’s interest rate of other payables in EUR is Euribor +3,20 (31 December 2016: Euribor +3,20).

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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NOTE 6 – RELATED PARTY DISCLOSURES (Cont'd)

e) Other long term liabilities to related parties

	31 December 2017	31 December 2016
Vestel Elektronik Sanayi ve Ticaret A.Ş.	98.323	134.261

The annual interest rate for EUR denominated other long term liabilities is Euribor +3,20 and last instalment will be paid in March 2020.

f) Transactions with related parties

	1 January - 31 December 2017	1 January - 31 December 2016
Sales		
Vestel Ticaret A.Ş.	3.854.559	2.974.726
Vestel Elektronik Sanayi ve Ticaret A.Ş.	14.859	12.694
Other related parties	11	22
	3.869.429	2.987.442
Purchases and operating expenses		
Vestel Holland B.V.	29.099	8.964
Vestel Elektronik Sanayi ve Ticaret A.Ş.	168.059	107.896
Other related parties	17.119	12.016
	214.277	128.876
Other operating income		
Vestel Ticaret A.Ş.	295.932	146.312
Other related parties	1.217	514
	297.149	146.826
Other operating expense		
Vestel Ticaret A.Ş.	55.575	17.293
Other related parties	2.174	1.255
	57.749	18.548
Dividend paid		
Vestel Elektronik Sanayi ve Ticaret A.Ş.	170.539	123.837
Public shares	9.461	7.040
	180.000	130.877

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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NOTE 6 – RELATED PARTY DISCLOSURES (Cont’d)

f) Transactions with related parties

	1 January - 31 December 2017	1 January - 31 December 2016
Financial income		
Vestel Elektronik Sanayi ve Ticaret A.Ş.	21.542	21.153
	21.542	21.153
Financial expense		
Vestel Elektronik Sanayi ve Ticaret A.Ş.	53.333	33.446
	53.333	33.446

The Company performs part of its raw material purchases via Vestel Holland B.V which is also a member of Vestel Group Companies.

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 three months period ended 31 December 2017 is 7.524 thousand TL (1 January -31 December 2016: 6.023 thousand TL).

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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NOTE 7 – TRADE RECEIVABLES AND PAYABLES

	31 December 2017	31 December 2016
Short - term trade receivables		
Trade receivables		
- Related parties (note 6)	1.046.054	1.188.788
- Other parties	5.349	3.759
Cheques and notes receivables	2.131	-
	1.053.534	1.192.547
Unearned interest expense (-)		
- Related parties (note 6)	(7.252)	(5.981)
- Other parties	(161)	(291)
Allowance for doubtful receivables (-)	(238)	(231)
Total short - term trade receivables	1.045.883	1.186.044

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

	31 December 2017	31 December 2016
Short term trade payables		
Trade payables		
- Related parties (note 6)	41.172	23.649
- Other parties	1.205.514	819.114
	1.246.686	842.763
Unearned interest income (-)		
- Related parties (note 6)	(428)	(201)
- Other parties	(3.977)	(2.088)
Total short term trade payables	1.242.281	840.474
Long term trade payables		
Trade payables		
- Other parties	1.959	-
Total long term trade payables	1.959	-

Risk analysis of trade receivables and payables is disclosed in note 28.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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NOTE 8 - OTHER RECEIVABLES

	31 December 2017	31 December 2016
Short - term other receivables		
Other receivables from related parties (note 6)	511.898	258.612
VAT receivable	128.421	55.738
Deposits and guarantees given	3.474	6.690
Other tax receivables	-	14.497
Other receivables	1.402	1.173
	645.195	336.710

NOTE 9 - INVENTORIES

	31 December 2017	31 December 2016
Raw materials	312.136	165.803
Work in process	7.820	3.997
Finished goods	181.399	74.914
	501.355	244.714
Provision for impairment on inventories (-)	(1.175)	(268)
	500.180	244.446

As of 31 December 2017 the Company does not have inventories pledged as security for liabilities (31 December 2016: None).

Cost of the inventory included in the cost of sales for the period 1 January - 31 December 2017 amounts to 2.928.539 thousand TL (1 January - 31 December 2016: 2.176.565 thousand TL).

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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NOTE 9 – INVENTORIES (Cont'd)

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

	31 December 2017	31 December 2016
Finished goods and merchandise	1.175	268
	1.175	268

Movement of inventory impairment on inventories is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Opening balance, 1 January	268	622
Current year additions	1.175	268
Realised due to sale of inventory	(268)	(622)
Balance at 31 December	1.175	268

NOTE 10 – PREPAID EXPENSES

	31 December 2017	31 December 2016
Prepaid expenses in current assets		
Order advances given	4.274	3.918
Prepaid expenses	9.453	7.135
Business advances given	76	13
	13.803	11.066
Prepaid expenses in non-current assets		
Advances given for fixed asset purchases	62.612	41.224
Prepaid expenses	340	517
	62.952	41.741

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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NOTE 11 – PROPERTY, PLANT AND EQUIPMENT

	1 January 2017	Additions	Disposals	Transfers	31 December 2017
Cost					
Land	6.547	32.516	-	-	39.063
Land improvements	3.248	6	-	21	3.275
Buildings	69.608	1.346	(8)	677	71.623
Leasehold improvements	5.983	765	(9)	775	7.514
Plant and machinery	861.200	167.889	(3.514)	31.063	1.056.638
Motor vehicles	516	118	(45)	-	589
Furniture and fixtures	47.137	4.603	(182)	2.727	54.285
Construction in progress	6.943	111.371	-	(35.263)	83.051
	1.001.182	318.614	(3.758)	-	1.316.038
Accumulated depreciation					
Land improvements	2.373	58	-	-	2.431
Buildings	29.361	1.427	(3)	-	30.785
Leasehold improvements	2.839	609	(4)	-	3.444
Plant and machinery	606.234	85.980	(2.974)	-	689.240
Motor vehicles	301	75	(36)	-	340
Furniture and fixtures	32.109	4.667	(180)	-	36.596
	673.217	92.816	(3.197)	-	762.836
Net book value	327.965			-	553.202

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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

	1 January 2016	Additions	Disposals	Transfers	31 December 2016
Cost					
Land	6.547	-	-	-	6.547
Land improvements	3.204	44	-	-	3.248
Buildings	67.908	815	-	885	69.608
Leasehold improvements	5.744	126	-	113	5.983
Plant and machinery	783.887	71.648	(3.961)	9.626	861.200
Motor vehicles	421	95	-	-	516
Furniture and fixtures	43.440	2.983	(78)	792	47.137
Construction in progress	4.634	13.725	-	(11.416)	6.943
	915.785	89.436	(4.039)	-	1.001.182
Accumulated depreciation					
Land improvements	2.319	54	-	-	2.373
Buildings	28.054	1.307	-	-	29.361
Leasehold improvements	2.378	461	-	-	2.839
Plant and machinery	540.144	69.821	(3.731)	-	606.234
Motor vehicles	232	69	-	-	301
Furniture and fixtures	28.088	4.075	(54)	-	32.109
	601.215	75.787	(3.785)	-	673.217
Net book value	314.570				327.965

Additions to property, plant and equipment in the period 1 January – 31 December 2017 and 2016 mainly consist of machinery and equipment investments made to refrigerator, washing machine, cooker , dishwasher and air conditioner factories.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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

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

	<u>Useful life</u>
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

Allocation of period depreciation and amortization expenses is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Cost of sales	90.667	74.007
Research and development expenses	19.809	16.175
Marketing, selling and distribution expenses	359	275
General administrative expenses	911	609
	111.746	91.066

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NOTE 12 – INTANGIBLE ASSETS

	1 January 2017	Additions	Disposals	31 December 2017
Cost				
Rights	6.376	-	-	6.376
Development cost	159.355	40.083	(2.241)	197.197
Other intangible assets	11.490	2.272	-	13.762
	177.221	42.355	(2.241)	217.335
Accumulated amortization				
Rights	6.354	3	-	6.357
Development cost	69.424	17.967	-	87.391
Other intangible assets	4.413	960	-	5.373
	80.191	18.930	-	99.121
Net book value	97.030			118.214

	1 January 2016	Additions	Disposals	31 December 2016
Cost				
Rights	6.376	-	-	6.376
Development cost	133.481	28.251	(2.377)	159.355
Other intangible assets	10.018	1.472	-	11.490
	149.875	29.723	(2.377)	177.221
Accumulated amortization				
Rights	6.351	3	-	6.354
Development cost	54.926	14.498	-	69.424
Other intangible assets	3.635	778	-	4.413
	64.912	15.279	-	80.191
Net book value	84.963			97.030

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 12 - 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 13 - GOVERNMENT GRANTS

There are investment incentive certificates to which the Company has been entitled by the official authorities in connection with certain capital expenditures. The grants obtained by the Company in nature are as follows:

- i) Exemption from customs duty on machinery and equipment to be imported,
- ii) Value-added tax exemption with respect to purchases of investment goods both from domestic and export markets,
- iii) Incentives under jurisdiction of the research and development law
- iv) Inward processing permission certificates,
- v) Cash refund from Tübitak-Teydeb for research and development expenses,
- vi) Discounted corporate tax incentive,
- vii) Insurance premium employer share incentive,

Research and development incentive premium from Tübitak Teknoloji ve Yenilik Destek Programları Başkanlığı ("TEYDEB") amounts to 533 thousand TL for the period 1 January - 31 December 2017 (1 January - 31 December 2016: 381 thousand TL).

Brand support incentive Turquality obtained from Republic of Turkey Prime Ministry Undersecretary of Treasury amounts to 19 thousand TL in year 2017 (2016: 1.281 thousand TL).

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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NOTE 14 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

a) Provisions

	31 December 2017	31 December 2016
Short - term provisions		
Provision for lawsuit risks	2.197	1.620
	2.197	1.620

The movements in the provision for lawsuits are as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Opening balance, 1 January	1.620	1.358
Current year additions	581	274
Payments/ Disposals	(4)	(12)
Balance at 31 December	2.197	1.620

b) Guarantees received by the Company

	31 December 2017	31 December 2016
Guarantee letters	55.750	7.232
Cheques and notes	4.277	8.273
Collaterals and pledges	3.689.650	3.238.156
	3.749.677	3.253.661

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.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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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
31 December 2017				
A. CPM's given on behalf of its own legal entity	-	2.307	21.032	31.449
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	44.487	907.894	4.911.378
i. Total amount of CPM's given on behalf of the parent company	722.288	-	667.835	3.392.233
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	44.487	240.059	1.519.145
iii. Total amount of CPM's given on behalf of third parties which are not in scope of C.	-	-	-	-
Total	1.008.140	46.794	928.926	4.942.827

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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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 2016				
A. CPM's given on behalf of its own legal entity	9.332	7.250	16.509	76.247
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	1.102.343	46.866	907.894	4.961.128
i. Total amount of CPM's given on behalf of the parent company	806.793	-	667.835	3.507.101
ii. Total amount of CPM's given to on behalf of other group companies which are not in scope of B and C.	295.550	46.866	240.059	1.454.027
iii. Total amount of CPM's given on behalf of third parties which are not in scope of C.	-	-	-	-
Total	1.111.675	54.116	924.403	5.037.375

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 485% as of 31 December 2017 (31 December 2016: 539%).

NOTE 15 – COMMITMENTS

As of the balance sheet date the Company has committed to realize exports amounting to 448.212 thousand USD (31 December 2016: 462.190 thousand USD) due to the export and investment incentive certificates obtained.

As of 31 December 2017 the Company has forward foreign currency purchase contract that amounts to 92.509 thousand TL, 55.072 thousand EUR and 279.575 thousand USD against forward foreign currency sales contract that amounts to 242.091 thousand EUR, 17.745 thousand USD and 237.451 thousand TL (31 December 2016: 169.843 thousand USD and 219.947 thousand TL against forward foreign currency sales contract that amounts to 116.881 thousand EUR, 69.000 thousand USD and 136.991 thousand TL sales contracts).

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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NOTE 16 – EMPLOYEE BENEFITS

Liabilities for employee benefits:

	31 December 2017	31 December 2016
Due to personnel	19.779	17.538
Social security payables	6.892	6.225
	26.671	23.763

Long term provisions for employee benefits:

	31 December 2017	31 December 2016
Provision for employment termination benefits	31.749	24.459

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 4.732,48 TL/ year as of 31 December 2017 (31 December 2016: 4.297,21 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 31 December 2017 the provision is calculated by estimating the present value of the future obligation of the company arising from retirement of employees. As of 31 December 2017 provision is calculated based on real discount rate of 4,67% (31 December 2016: 4,79%) assuming 6,5% annual inflation rate and 11,47% discount rate.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2017

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NOTE 16 – EMPLOYEE BENEFITS (Cont'd)

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

	1 January - 31 December 2017	1 January - 31 December 2016
Balance at 1 January	24.459	21.907
Increase during the year	7.677	8.451
Payments during the year	(7.016)	(7.712)
Actuarial (gain) /loss	3.613	(466)
Interest expense	3.016	2.279
Balance at 31 December	31.749	24.459

As of 31 December 2017, an increase in annual discount rate by 0,25% would lead to a decrease in employee benefit liability by 4,1% ; a decrease in annual discount rate by 0,25% would lead to an increase in employee benefit liability by 4,3%. (31 December 2016: 4,1% decrease and 4,4% increase).

As of 31 December 2017, an increase in salary escalation by 0,25% would lead to an increase in employee benefit liability by 4,5%; a decrease in salary escalation by 0,25% would lead to a decrease in employee benefit liability by 4,3%. (31 December 2016: 4,6% increase and 4,3% decrease)

NOTE 17 – OTHER ASSETS AND LIABILITIES

	31 December 2017	31 December 2016
Other current assets		
VAT carried forward	266	113
Other	5.675	1.099
	5.941	1.212
Other current liabilities		
Taxes and dues payable	8.355	9.743
Advances received	-	346
Other	342	160
	8.697	10.249

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NOTE 18 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS

a) Paid in capital

	31 December 2017	31 December 2016
Shares of par value Kr 1 each		
Issued share capital	190.000	190.000

As of 31 December 2017 and 31 December 2016 the shareholding structure is as follows:

	Shareholding		Amount	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Vestel Elektronik Sanayi ve Ticaret A.Ş. (with Board of Directors Members)	94,62%	94,62%	179.780	179.780
Shares held by public	5,38%	5,38%	10.220	10.220
	100,00%	100,00%	190.000	190.000

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.

	31 December 2017	31 December 2016
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.

	31 December 2017	31 December 2016
Share premium	109.031	109.031

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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

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.

	31 December 2017	31 December 2016
Legal reserves	111.627	77.019

e) Retained earnings

	31 December 2017	31 December 2016
Extraordinary reserves	258.976	133.233
Previous year’s profits	45.090	60.436
	304.066	193.669

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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

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.

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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NOTE 19 – SALES

	1 January - 31 December 2017	1 January - 31 December 2016
Domestic sales	1.029.225	751.305
Overseas sales	2.841.516	2.297.529
Gross sales	3.870.741	3.048.834
Less: Sales discounts (-)	(12.985)	(11.817)
Net sales	3.857.756	3.037.017
Cost of sales	(3.363.747)	(2.546.704)
Gross profit	494.009	490.313

NOTE 20 – EXPENSES BY NATURE

	1 January - 31 December 2017	1 January - 31 December 2016
Raw materials, supplies and finished goods	3.038.847	2.132.321
Changes in finished goods, work in process and trade goods	(110.308)	44.244
Personnel expenses	290.817	255.792
Depreciation and amortization	111.746	91.066
Other	172.453	148.953
	3.503.555	2.672.376

VESTEL BEYAZ EŞYA SANAYİ VE TİCARET ANONİM ŞİRKETİ NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

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

	1 January - 31 December 2017	1 January - 31 December 2016
a) General and administrative expenses:		
Personnel expenses	13.649	12.241
Consultancy Expenses	13.758	10.840
Rent and office expenses	4.317	8.815
Travelling expenses	1.648	968
Taxes and duties	1.469	1.449
Insurance expenses	503	340
Energy expenses	550	461
Depreciation and amortization	911	609
Benefits and services provided externally	490	202
Other	11.623	11.470
	48.918	47.395
b) Marketing expenses:		
Personnel expenses	12.833	11.408
Transportation, distribution and storage expenses	28.520	25.407
Taxes and duties	5.305	3.686
Insurance expenses	1.413	1.339
Depreciation and amortization	359	275
Other	5.501	4.811
	53.931	46.926
c) Research and development expenses:		
Depreciation and amortization	19.809	16.175
Personnel expenses	8.427	8.067
Travelling expenses	1.526	890
Benefits and services provided externally	1.240	691
Maintenance expenses	983	729
Other	4.974	4.799
	36.959	31.351

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NOTE 22 – OTHER INCOME AND EXPENSE FROM OPERATING ACTIVITIES

	1 January - 31 December 2017	1 January - 31 December 2016
a) Other income from operating activities:		
Credit finance gains arising from trading activities	49.591	24.165
Foreign exchange gains arising from trading activities	267.752	133.561
Other income	8.370	6.917
	325.713	164.643

b) Other expense from operating activities:

Debit finance charges arising from trading activities	43.377	24.974
Foreign exchange expenses arising from trading activities	145.048	111.192
Other expenses	6.877	6.353
	195.302	142.519

NOTE 23 – FINANCIAL INCOME AND FINANCIAL EXPENSE

a) Financial income:

	1 January - 31 December 2017	1 January - 31 December 2016
Foreign exchange gains	20.794	7.406
Gains on derivative financial instruments	86.168	80.551
Interest income	21.605	22.028
	128.567	109.985

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

b) Financial expense:

	1 January - 31 December 2017	1 January - 31 December 2016
Foreign exchange losses	103.286	51.476
Losses on derivative financial instruments	161.348	88.556
Interest expense	47.864	22.843
Other finance expenses	107	102
	312.605	162.977

NOTE 24 – ANALYSIS OF OTHER COMPREHENSIVE INCOME ITEMS

a) Cash flow hedge fund:

	1 January - 31 December 2017	1 January - 31 December 2016
Opening balance, 1 January	18.786	7.629
Gains (losses) on cash flow hedges	(25.216)	13.946
Taxes relating to cash flow hedges	5.078	(2.789)
Balance at 31 December	(1.352)	18.786

b) Actuarial (loss) / gain arising from defined benefit plans:

	1 January - 31 December 2017	1 January - 31 December 2016
Opening balance, 1 January	(3.313)	(3.686)
Gains (losses) on remeasurements of defined benefit plans	(3.613)	466
Taxes relating to remeasurements of defined benefit plans	723	(93)
Balance at 31 December	(6.203)	(3.313)

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NOTE 25 – TAXES ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)

	31 December 2017	31 December 2016
Corporation and income taxes	3.164	18.751
Prepaid taxes (-)	(4.414)	(15.566)
Current income tax liabilities - net	(1.250)	3.185
Deferred tax assets	5.681	2.056

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.

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, "Bazı Vergi Kanunları İle Diğer Bazı Kanunlarda Değişiklik Yapılmasına Dair Kanun", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2017 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax rate for those which will be realized after 2021 and onwards.

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NOTE 25 – TAXES ON INCOME (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Cont'd)

As of 1 January - 31 December 2017 and 2016 tax expense in the statement of income is as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Current period tax expense	(3.164)	(18.751)
Deferred tax benefit / (expense)	(2.176)	9.983
Total tax expense	(5.340)	(8.768)

Total tax benefit for the year can be reconciled to the accounting profit as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Profit before tax	300.574	333.773
Local tax rate	22%	20%
Tax income calculated using local tax rate	(66.126)	(66.755)
Non-deductible expenses	(1.583)	(619)
Discounts and exemptions	12.976	8.495
Discounted corporate tax advantage	48.359	50.111
Effect of legal tax rate change on deferred tax	1.034	-
Other	-	-
	(5.340)	(8.768)

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 25 – 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	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Deferred tax assets				
Employment termination benefits	(31.749)	(24.459)	6.350	4.892
Provision for impairment on inventories	(1.175)	(268)	258	54
Derivative financial instruments	(5.968)	(1.449)	1.313	290
Other	(14.436)	(13.185)	3.176	2.637
			11.097	7.873
	Cumulative temporary differences		Deferred tax	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Deferred tax liabilities				
Useful life and valuation differences on property, plant and equipment and intangible assets	25.180	27.730	(5.036)	(5.546)
Other	1.900	1.355	(380)	(271)
			(5.416)	(5.817)
Deferred tax assets - net			5.681	2.056

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NOTE 25 – 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 - 31 December 2017	1 January - 31 December 2016
Opening balance, 1 January	2.056	(5.045)
Tax expense recognized in income statement	(2.176)	9.983
Recognized in shareholders' equity	5.801	(2.882)
Deferred tax liabilities at the end of the period, net	5.681	2.056

As of 31 December 2017, the Company has not recognized 143.360 thousand TL deferred tax assets arising from its investment incentive certificate, in accordance with conservatism principle of accounting.

NOTE 26– EARNINGS PER SHARE

	1 January - 31 December 2017	1 January - 31 December 2016
Net (loss) / income attributable to equity holders of the parent	295.234	325.005
Weighted number of ordinary shares with a TL 1 of par value (thousand shares)	190.000	190.000
	1,55	1,71

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NOTE 27 – DERIVATIVE INSTRUMENTS

	31 December 2017		31 December 2016	
	Contract amount	Fair Value Assets / (Liabilities)	Contract amount	Fair Value Assets / (Liabilities)
<u>Derivative financial assets:</u>				
Held for trading				
Forward foreign currency transactions	211.078	1.759	354.888	2.922
Cash flow hedge				
Forward foreign currency transactions	486.575	2.250	242.825	23.482
<u>Derivative financial liabilities:</u>				
Held for trading				
Forward foreign currency transactions	415.169	(5.993)	219.947	(27.853)
Cash flow hedge				
Forward foreign currency transactions	282.893	(3.984)	-	-
	1.395.715	(5.968)	817.660	(1.449)

NOTE 28 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

a) Capital risk management:

The Company manages its capital to ensure that it will maintain its status as a going concern while maximizing the return to stakeholders through optimization of the debt and equity balance.

The management considers the cost of capital and the risks associated with each class of capital. The management aims to balance its overall capital structure through the payment of dividends, share issues and proceeds from or repayments of debt.

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NOTE 28– FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont’d)

As of 31 December 2017 and 31 December 2016 the Company’s net debt / total equity ratios are as follows:

	31 December 2017	31 December 2016
Total financial liabilities (note 5)	531.491	248.709
Cash and cash equivalents (note 4)	(73.679)	(12.829)
Net debt	457.812	235.880
Total equity	1.012.137	919.931
Capital invested	1.469.949	1.155.811
Net debt/capital invested	0,31	0,20

b) Financial risk factors:

The Company’s activities expose it to a variety of financial risks including the foreign currency exchange rates risk, credit risk and liquidity risk. The Company’s overall risk management program on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company. The Company uses derivative financial instruments in order to protect itself from various financial risks.

b.1) Credit risk:

Credit risk arises from bank deposits, trade receivables and other trade receivables. Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of these agreements. The Company sells significant portion of its products to Vestel Ticaret A.Ş. which is a group company. Credit risk is evaluated by considering past experiences and current economic conditions and receivables is presented in the balance sheet after appropriate amount of provision for doubtful receivables is allocated. The company considers that the credit risk is managed effectively. The following statements show the analysis of credit risk as of 31 December 2017 and 31 December 2016:

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NOTE 28 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont’d)

31 December 2017	Receivables				Bank Deposits	Other
	Trade Receivables		Other Receivables			
	Related Parties	Third Parties	Related Parties	Third Parties		
Maximum exposed credit risk as at 31 December 2017 (A+B+C+D)	1.038.802	7.081	511.898	133.297	65.012	8.667
- Secured portion of the maximum credit risk by guarantees, etc	-	-	-	-	-	-
A. Net book value of financial asset either are not due or impaired	1.038.802	7.081	511.898	133.297	65.012	8.667
B. Net book value of financial asset with renegotiated conditions, otherwise considered as overdue or impaired	-	-	-	-	-	-
C. Net book value of overdue but not impaired financial assets	-	-	-	-	-	-
- Secured portion by guarantees, etc	-	-	-	-	-	-
D. Net book value of the impaired assets	-	-	-	-	-	-
- Overdue	-	238	-	-	-	-
- Impairment	-	(238)	-	-	-	-
- Secured portion of the net value by guarantees, etc	-	-	-	-	-	-
E. Off balance sheet items comprised of credit risk	-	-	-	-	-	-

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NOTE 28 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont’d)

	Receivables					
	Trade Receivables		Other Receivables			
	Related Parties	Third Parties	Related Parties	Third Parties	Bank Deposits	Other
31 December 2016						
Maximum exposed credit risk as at 31 December 2016 (A+B+C+D)	1.182.807	3.237	258.612	78.098	5.193	7.636
- Secured portion of the maximum credit risk by guarantees, etc	-	-	-	-	-	-
A. Net book value of financial asset either are not due or impaired	1.182.807	3.237	258.612	78.098	5.193	7.636
B. Net book value of financial asset with renegotiated conditions, otherwise considered as overdue or impaired	-	-	-	-	-	-
C. Net book value of overdue but not impaired financial assets	-	-	-	-	-	-
- Secured portion by guarantees, etc	-	-	-	-	-	-
D. Net book value of the impaired assets	-	-	-	-	-	-
- Overdue	-	231	-	-	-	-
- Impairment	-	(231)	-	-	-	-
- Secured portion of the net value by guarantees, etc	-	-	-	-	-	-
E. Off balance sheet items comprised of credit risk	-	-	-	-	-	-

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NOTE 28 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont’d)**b.2) Price risk:**

Due to the fact that the Company’s operating profit and cash flows from operating activities has been affected by competition in the sector and changes in raw material prices, the prices is monitored by the Company management and cost-cutting measures has been taken in order to mitigate cost pressure effect on price level. In addition, the Company reviews market prices for active financial and operational risk management regularly.

Existing risks has been monitored on Audit Committee and Board of Directors meetings and raw material prices in market is reviewed closely.

b.3) Liquidity risk:

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Company manages liquidity risk by providing the continuity of sufficient funds and loan reserves by twinning the maturities of financial assets and liabilities by following cash flow regularly.

The following tables detail the Company’s remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of non-derivative financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows. Derivative financial liabilities are presented by undiscounted net inflows and outflows.

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NOTE 28 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont’d)

The analysis of the Company’s financial liabilities with respect to their maturities as of 31 December 2017:

Contractual Maturities	Book Value	Total contractual cash outflows	Less than 3 months	3 - 12 months	1 - 5 years	More than 5 years
Non-derivative financial liabilities						
Bank Borrowings	531.491	543.535	90.101	265.039	188.395	-
Trade Payables	1.242.281	1.246.699	940.798	305.901	-	-
Other Payables	162.830	169.118	34.848	34.364	99.906	-
	1.936.602	1.959.352	1.065.747	605.304	288.301	-
Derivative financial instruments						
Derivative cash inflows	-	(1.395.715)	(909.140)	(486.575)	-	-
Derivative cash outflows	-	1.397.546	917.508	480.038	-	-
	5.968	1.831	8.368	(6.537)	-	-

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NOTE 28 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont’d)

The analysis of the Company’s financial liabilities with respect to their maturities as of 31 December 2016:

Contractual Maturities	Book Value	Total contractual cash outflows	Less than 3 months	3 - 12 months	1 - 5 years	More than 5 years
Non-derivative financial liabilities						
Bank Borrowings	248.709	269.019	3.233	41.280	224.506	-
Trade Payables	840.474	842.652	686.515	153.656	2.481	-
Other Payables	187.260	196.880	29.451	28.923	138.506	-
	1.276.443	1.308.551	719.199	223.859	365.493	-
Derivative financial instruments						
Derivative cash inflows	-	(817.660)	(517.254)	(300.406)	-	-
Derivative cash outflows	-	813.430	516.193	297.237	-	-
	1.449	(4.230)	(1.061)	(3.169)	-	-

b.4) 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 28 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont’d)

31 December 2017	USD	EUR	Other (TL Equivalent)	TL Equivalent
1. Trade receivables	12.776	148.303	163	718.015
2a. Monetary financial assets (including cash and cash equivalents)	-	-	-	-
2b. Non-monetary financial assets	350	15.540	19	71.510
3. Other	-	-	-	-
3. Other	36.720	-	-	138.504
4. Current assets (1+2+3)	49.846	163.843	182	928.029
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	1.605	7.140	-	38.295
7. Other	-	-	-	-
8. Non-current assets (5+6+7)	1.605	7.140	-	38.295
9. Total assets (4+8)	51.451	170.983	182	966.324
10. Trade payables	180.221	56.166	46	933.439
11. Financial liabilities	-	54.955	-	248.148
12a. Other monetary liabilities	-	14.286	-	64.508
12b. Other non-monetary liabilities	-	-	-	-
13. Current liabilities (10+11+12)	180.221	125.407	46	1.246.095
14. Trade payables	-	-	-	-
15. Financial liabilities	-	37.319	-	168.514
16a. Other monetary liabilities	-	21.775	-	98.325
16b. Other non-monetary liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	-	59.094	-	266.839
18. Total liabilities (13+17)	180.221	184.501	46	1.512.934
19. Off-balance sheet derivative instruments/ net asset (liability) position (19a+19b)	-	-	-	-
19a. Hedged total assets	261.830	(187.019)	-	143.112
19b. Hedged total liabilities	279.575	55.072	-	1.303.207
19b. Hedged total liabilities	(17.745)	(242.091)	-	(1.160.094)
20. Net foreign currency asset/ (liability) position (9-18+19)	-	-	-	-
20. Net foreign currency asset/ (liability) position (9-18+19)	133.060	(200.537)	136	(403.498)
21. Net foreign currency monetary asset/ (liability) position (=1+2a+5+6a-10-11-12a-14-15-16a)	-	-	-	-
21. Net foreign currency monetary asset/ (liability) position (=1+2a+5+6a-10-11-12a-14-15-16a)	(167.095)	(20.658)	136	(723.409)
22. Fair value of financial instruments used in foreign currency hedging	-	-	-	-
22. Fair value of financial instruments used in foreign currency hedging	-	-	-	(5.968)
23. Export	29.144	671.923	-	2.841.516
24. Import	261.603	200.443	1.408	1.776.031

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NOTE 28 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont’d)

31 December 2016	USD	EUR	Other (TL Equivalent)	TL Equivalent
1. Trade receivables	3.570	230.590	15	868.044
2a. Monetary financial assets (including cash and cash equivalents)	-	-	-	-
	379	1.019	9	5.123
2b. Non-monetary financial assets	-	-	-	-
3. Other	137	-	-	482
4. Current assets (1+2+3)	4.086	231.609	24	873.650
5. Trade receivables	-	-	-	-
6a. Monetary financial assets	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-
7. Other	-	-	-	-
8. Non-current assets (5+6+7)	-	-	-	-
9. Total assets (4+8)	4.086	231.609	24	873.650
10. Trade payables	107.115	66.548	43	623.889
11. Financial liabilities	-	1.697	-	6.295
12a. Other monetary liabilities	-	14.286	-	53.000
12b. Other non-monetary liabilities	-	-	-	-
13. Current liabilities (10+11+12)	107.115	82.531	43	683.184
14. Trade payables	-	-	-	-
15. Financial liabilities	-	42.370	-	157.189
16a. Other monetary liabilities	-	36.190	-	134.261
16b. Other non-monetary liabilities	-	-	-	-
17. Non-current liabilities (14+15+16)	-	78.560	-	291.450
18. Total liabilities (13+17)	107.115	161.091	43	974.634
19. Off-balance sheet derivative instruments/ net asset (liability) position (19a+19b)	-	-	-	-
19a. Hedged total assets	169.843	-	-	597.711
19b. Hedged total liabilities	(69.000)	(116.881)	-	(676.442)
20. Net foreign currency asset/ (liability) position (9-18+19)	(2.186)	(46.363)	(19)	(179.714)
21. Net foreign currency monetary asset/ (liability) position (=1+2a+5+6a-10-11-12a-14-15-16a)	(103.166)	70.518	(19)	(101.467)
22. Fair value of financial instruments used in foreign currency hedging	-	-	-	-
	-	-	-	(1.449)
23. Export	12.970	662.474	-	2.297.529
24. Import	163.174	167.663	1.000	1.048.894

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NOTE 28 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont’d)

As of 31 December 2017 and 31 December 2016, 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
31 December 2017				
+/- 10% fluctuation of USD rate:				
USD net asset / liability	(63.027)	63.027	(63.027)	63.027
Secured portion from USD risk (-)	21.788	(21.788)	98.314	(98.314)
USD net effect	(41.239)	41.239	35.287	(35.287)
+/- 10% fluctuation of EUR rate:				
EUR net asset / liability	(9.328)	9.328	(9.328)	9.328
Secured portion from EUR risk (-)	(7.971)	7.971	(84.670)	84.670
EUR net effect	(17.299)	17.299	(93.998)	93.998
+/- 10% fluctuation of other currency rates:				
Other currencies net asset / liability	14	(14)	14	(14)
Secured portion from other currency risk (-)	-	-	-	-
Other currency net effect	14	(14)	14	(14)

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NOTE 28 – 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 2016				
+/- 10% fluctuation of USD rate:				
USD net asset / liability	(36.306)	36.306	(36.306)	36.306
Secured portion from USD risk (-)	11.775	(11.775)	35.984	(35.984)
USD net effect	(24.531)	24.531	(322)	322
+/- 10% fluctuation of EUR rate:				
EUR net asset / liability	26.161	(26.161)	26.161	(26.161)
Secured portion from EUR risk (-)	(21.533)	21.533	(43.394)	43.394
EUR net effect	4.628	(4.628)	(17.233)	17.233
+/- 10% fluctuation of other currency rates:				
Other currencies net asset / liability	(2)	2	(2)	2
Secured portion from other currency risk (-)	-	-	-	-
Other currency net effect	(2)	2	(2)	2

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NOTE 28 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont’d)

b.5) Interest rate risk:

The Company is exposed to interest rate risk as the Company borrow funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate hedge contracts and forward interest rate contracts.

Analysis of financial instruments of the Company which are sensitive to interest rate changes is as follows:

	31 December 2017	31 December 2016
Financial instruments with fixed interest rates		
Time deposits	-	3.951
Financial liabilities	531.491	242.414
Financial instruments with variable interest rates		
Financial liabilities	-	6.295
Other liabilities	162.830	187.260

On 31 December 2017, if interest rates of all currency denominated financial assets and liabilities with variable interest rates has strengthened / weakened by 100 base point with all other variables held constant, income before taxes would have been 1.540 thousand TL (2016: 1.733 thousand TL) lower / higher as a result of interest expenses.

NOTE 29 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES)

Categories of financial instruments and fair values

The Company has classified its financial assets and liabilities as at fair value through profit or loss, available for sale financial assets and loans and receivables. Among Company’s financial assets, cash and cash equivalents (note 4), trade receivables (notes 6 and 7) and other receivables (notes 6 and 8), are classified as loans and receivables and are measured at amortized cost using the effective interest method.

Company’s financial liabilities consist of financial liabilities (note 5) and trade payables (note 7) are measured at amortized cost using the effective interest method.

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**NOTE 29 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES)
(Cont’d)**

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values of financial instruments have been determined by the Company, using available market information and appropriate valuation methodologies. However, judgement is necessarily required interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. Following methods and assumptions were used to estimate the fair value of the financial instruments for which is practicable to estimate fair value:

Monetary assets

The book value of foreign currency denominated balances which are translated to TL using exchange rates prevailing on the date of the balance sheet approximate their fair values. For financial assets measured at cost including cash and cash equivalents, the carrying amounts are the same with fair values due to their short term nature. Carrying amounts of trade receivables net of impairments approximate their fair values.

Monetary liabilities

The fair values of short term financial liabilities and other financial liabilities are estimated to be their fair values since they are short term. Fair value is calculated by discounting the cash out flows regarding due dates of financial liabilities considering the changing country risk premium and changes in the market interest rates.

Fair value hierarchy

The Company classifies the fair value measurement of each class of financial instruments according to the source, using the three level hierarchy, as follows:

Level 1: Market price valuation techniques for the determined financial instruments traded in markets (unadjusted)

Level 2: Other valuation techniques includes direct or indirect observable inputs

Level 3: Valuation techniques does not contains observable market inputs

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NOTE 29 - FINANCIAL INSTRUMENTS (FAIR VALUE AND HEDGE ACCOUNTING DISCLOSURES)
(Cont’d)

Fair value hierarchy tables as of 31 December 2017 and 31 December 2016 are as follows:

31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets / (liabilities)				
Derivative financial assets / (liabilities)	-	(5.968)	-	(5.968)
31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets / (liabilities)				
Derivative financial assets / (liabilities)	-	(1.449)	-	(1.449)