

**ENKA İNŞAAT VE SANAYİ
ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES**

Condensed Consolidated Interim Financial
Statements As at and for the Nine-Months
Period Ended
30 September 2018

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ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

ASSETS	Note	30 September 2018	31 December 2017
Current Assets		2,573,964	2,086,281
Cash and cash equivalents		931,819	781,718
Financial investments		612,880	578,886
Trade receivables		529,534	306,459
Other receivables			
Other receivables from related parties		43	21
Other receivables from third parties		963	793
Inventories		308,311	223,772
Prepaid expenses		57,670	90,103
Costs and estimated earnings in excess of billings on uncompleted contracts	5	34,972	12,168
Other current assets		74,248	68,725
		<u>2,550,440</u>	<u>2,062,645</u>
Assets held for sale		23,524	23,636
Non-Current Assets		5,305,266	5,945,008
Financial investments		1,630,285	2,118,672
Trade receivables		43,659	46,877
Investment properties	6	1,961,950	2,081,941
Property, plant and equipment	7	1,573,711	1,614,651
Intangible assets			
Goodwill		22,077	22,077
Other intangible assets		38,474	34,959
Deferred tax assets		5,678	2,759
Prepaid expenses		25,428	18,745
Other non-current assets		4,004	4,327
TOTAL ASSETS		<u>7,879,230</u>	<u>8,031,289</u>

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

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

LIABILITIES	Note	30 September 2018	31 December 2017
Current Liabilities		1,010,999	949,558
Short-term borrowings		45,294	40,105
Current portion of long-term borrowings		20,047	37,598
Trade payables		378,592	153,562
Payables to employees		25,245	26,704
Other payables			
Payables to related parties		13	34
Payables to third parties		22,496	19,513
Billings in excess of costs and estimated earnings on uncompleted contracts	5	184,955	267,629
Deferred income		180,498	224,234
Taxation on income		46,109	60,188
Provisions			
Provisions for employee benefits		10,908	20,460
Other provisions		63,063	50,795
Other current liabilities		33,779	48,736
Non-Current Liabilities		751,533	797,918
Long-term borrowings		224,324	233,807
Trade payables		-	59,002
Other payables		17,582	17,997
Deferred income		1,572	4,412
Provisions for employee benefits		12,618	15,520
Deferred tax liabilities		495,437	467,180
EQUITY		6,116,698	6,283,813
Equity Attributable to Equity Holders of the Parent		6,040,974	6,207,493
Share capital	10	2,639,338	2,556,803
Treasury Shares	10	(49,139)	(25,866)
Revaluation surplus		174,500	176,262
Currency translation difference		(1,260,114)	(1,094,940)
Other reserves		280	280
Legal reserves and accumulated profit		4,536,109	4,594,954
Non-Controlling Interests		75,724	76,320
TOTAL LIABILITIES AND EQUITY		7,879,230	8,031,289

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

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS FOR THE PERIOD ENDED 30 SEPTEMBER 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

	1 January- 30 September 2018	1 January- 30 September 2017	1 July- 30 September 2018	1 July- 30 September 2017
CONTINUING OPERATIONS				
Revenue	2,049,681	2,204,067	806,837	842,705
Cost of revenues (-)	(1,476,394)	(1,666,812)	(602,710)	(637,151)
GROSS PROFIT	573,287	537,255	204,127	205,554
Administrative expenses (-)	(66,799)	(74,823)	(20,625)	(29,326)
Marketing, selling and distribution expenses (-)	(19,336)	(23,478)	(6,168)	(7,697)
Other operating income	75,625	17,619	56,061	9,947
Other operating expenses (-)	(33,743)	(15,404)	(19,432)	(8,177)
PROFIT FROM OPERATIONS	529,034	441,169	213,963	170,301
Income from investing activities	120,434	315,255	45,968	81,781
Expenses from investing activities (-)	(380,962)	(81,430)	(173,299)	(37,990)
OPERATING PROFIT BEFORE FINANCE EXPENSES	268,506	674,994	86,632	214,092
Financial income	47,934	14,509	19,957	5,976
Financial expenses (-)	(29,366)	(9,132)	(7,727)	311
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	287,074	680,371	98,862	220,379
Current tax expense (-)	(78,178)	(90,118)	(20,862)	(29,396)
Deferred tax expense (-)	(41,449)	(29,449)	(30,800)	(8,604)
NET PROFIT (LOSS) FOR THE PERIOD	167,447	560,804	47,200	182,379
Attributable to:				
Non-controlling interest	2,784	10,176	1,868	3,947
Equity holders of the parent	164,663	550,628	45,332	178,432
	167,447	560,804	47,200	182,379
Earning / (Loss) per share from continuing operations				
- ordinary share certificate (full USD)	0.03	0.11	0.01	0.04
Weighted average number of shares (1 dollar weighted average shares)				
	4,957,630,000	4,957,630,000	4,957,630,000	4,957,630,000

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

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 SEPTEMBER 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

	1 January- 30 September 2018	1 January- 30 September 2017	1 July- 30 September 2018	1 July- 30 September 2017
NET PROFIT FOR THE PERIOD	167,447	560,804	47,200	182,379
Other Comprehensive Income / (Expense):				
Items that will not be reclassified subsequently to profit or loss	(759)	270	(247)	112
Changes in currency translation difference in revaluation fund of property	(759)	270	(247)	112
Items that may be reclassified subsequently to profit or loss	(168,120)	99,066	(62,788)	51,213
Changes in currency translation difference	(168,120)	99,066	(62,788)	51,213
OTHER COMPREHENSIVE INCOME / (LOSS)	(168,879)	99,336	(63,035)	51,325
TOTAL COMPREHENSIVE INCOME	(1,432)	660,140	(15,835)	233,704
Attributable to:				
Non-controlling interest	(162)	17,058	1,279	6,102
Equity holders of the parent	(1,270)	643,082	(17,114)	227,602
	(1,432)	660,140	(15,835)	233,704

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

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 SEPTEMBER 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

	Share capital	Treasury Shares	Revaluation surplus	Currency translation difference	Other reserves	Legal reserves and accumulated profit	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	2,445,227	(12,032)	182,004	(1,190,023)	(541)	4,241,948	5,666,583	61,920	5,728,503
Total other comprehensive income	-	-	271	92,183	-	-	92,454	6,882	99,336
Profit for the period	-	-	-	-	-	550,628	550,628	10,176	560,804
Total comprehensive income	-	-	271	92,183	-	550,628	643,082	17,058	660,140
Increase (Decrease) through Treasury Share Transactions	-	(13,834)	-	-	-	-	(13,834)	-	(13,834)
Transfer of depreciation difference (net of deferred tax) of revaluation effect	-	-	(1,302)	-	-	1,302	-	-	-
Share capital increase	111,576	-	-	-	-	(111,576)	-	-	-
Dividends paid	-	-	-	-	-	(191,452)	(191,452)	(2,653)	(194,105)
Balance at 30 September 2017	2,556,803	(25,866)	180,973	(1,097,840)	(541)	4,490,850	6,104,379	76,325	6,180,704
Balance at 1 January 2018	2,556,803	(25,866)	176,262	(1,094,940)	280	4,594,954	6,207,493	76,320	6,283,813
Total other comprehensive income	-	-	(759)	(165,174)	-	-	(165,933)	(2,946)	(168,879)
Profit for the period	-	-	-	-	-	164,663	164,663	2,784	167,447
Total comprehensive income	-	-	(759)	(165,174)	-	164,663	(1,270)	(162)	(1,432)
Increase (Decrease) through Treasury Share Transactions	-	(23,273)	-	-	-	-	(23,273)	-	(23,273)
Transfer of depreciation difference (net of deferred tax) of revaluation effect	-	-	(1,003)	-	-	1,003	-	-	-
Share capital increase	82,535	-	-	-	-	(82,535)	-	-	-
Dividends paid	-	-	-	-	-	(141,976)	(141,976)	(434)	(142,410)
Balance at 30 September 2018	2,639,338	(49,139)	174,500	(1,260,114)	280	4,536,109	6,040,974	75,724	6,116,698

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

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 SEPTEMBER 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

	1 January- 30 September 2018	1 January- 30 September 2017
Cash flows from operating activities		
Profit for the period	167,447	560,804
Adjustments to reconcile net income to net cash used in operating activities:		
- Depreciation and amortization of non-current assets	73,518	76,797
- Provision for employment termination benefits	953	2,508
- Allowance for doubtful receivables	(227)	1,150
- Provision for litigations	4,011	2,080
- Adjustments to deferred income from electricity sale	(115,221)	(117,921)
- Loss / (gain) from fair value of forward transactions	(8,341)	57
- Interest expense	4,200	2,571
- Interest income	(88,168)	(94,802)
- Dividend income	(9,532)	(7,761)
- Provision for inventory impairment, net	(1,493)	208
- Gain on sale or disposal of property, plant and equipment, net	(830)	(162)
- Valuation of investment securities	339,592	(106,820)
- Tax expense	119,627	119,567
	<u>485,536</u>	<u>438,276</u>
Movements in working capital		
Decrease in trade and other receivables	(221,018)	(26,142)
Decrease / (Increase) in cost and estimated earnings in excess of billings on uncompleted contracts	(22,804)	(17,224)
(Increase) / Decrease in inventory	(83,046)	887
(Increase) / Decrease in other current assets and other non current assets	20,491	(68,407)
Decrease / (Increase) in trade and other payables	166,025	114,280
(Increase) / Decrease in billings in excess of cost and estimated earnings on uncompleted contracts	(82,675)	39,344
Increase / (Decrease) in provision for liabilities and other liabilities	61,824	7,728
	<u>(161,203)</u>	<u>50,466</u>
Income taxes paid	(92,257)	(93,344)
Employee termination benefits paid	(1,417)	(2,611)
Net cash generated from operating activities	<u>230,659</u>	<u>392,787</u>
Cash flows from investing activities		
Purchases of financial investments	(208,775)	(723,324)
Sale of financial investments	323,350	524,880
Proceeds on disposal or sale of property, plant and equipment	6,310	3,346
Purchases of property, plant and equipment, intangible assets and investment properties	(112,091)	(184,615)
Interest received	80,427	89,429
Dividend income	9,532	7,761
Net cash used in investing activities	<u>98,753</u>	<u>(282,523)</u>
Cash flows from financing activities		
Short-term borrowings, net	(18,195)	3,463
Proceeds from borrowings	25,000	41,688
Repayments of borrowings	(7,403)	(22,266)
Purchase of treasury shares	(23,273)	(13,834)
Interest received	7,740	5,372
Interest paid	(3,263)	(2,125)
Dividend paid to non-controlling interests	(434)	(2,653)
Dividend paid	(141,976)	(191,452)
Net cash used in financing activities	<u>(161,804)</u>	<u>(181,807)</u>
Translation reserve	(17,507)	50,513
Net increase / (decrease) in cash and cash equivalents	<u>150,101</u>	<u>(21,030)</u>
Cash and cash equivalents at beginning of the period	780,718	999,020
Cash and cash equivalents at end of the period	<u>930,819</u>	<u>977,990</u>

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

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

1. ORGANIZATIONS AND OPERATIONS OF THE GROUP

Enka İnşaat ve Sanayi Anonim Şirketi (“the Group”) was established on 4 December 1967 and registered in İstanbul, Turkey, under the Turkish Commercial Code. The address of the headquarters and registered office of Enka İnşaat is Balmumcu, Zincirlikuyu Yolu No:10, 34349 Enka Binası Beşiktaş, İstanbul, Turkey.

As of 28 June 2002, Enka İnşaat merged legally with its publicly traded shareholder company, Enka Holding Yatırım Anonim Şirketi (“Enka Holding”), which were under the common control of Tara Holding Anonim Şirketi and Tara and Gülçelik families. As of 30 September 2018, 11,72% of the shares of Enka İnşaat is traded publicly in İstanbul Stock Exchange (“ISE”).

As of 30 September 2018, the average numbers of white and blue-collar personnel are respectively 4,576 and 12,573 (31 December 2017 – 4,641 and 15,751).

For the purpose of the condensed consolidated interim financial statements, Enka İnşaat, its consolidated subsidiaries and its joint operations are hereinafter referred to as “the Group”.

The Group operates in geographical areas below:

- i. *Turkey*: engaged in diverse types of construction activities including construction of industrial and social buildings, motorways and construction and operation of natural gas fired electrical energy generation facilities. Additionally the Group is operating in trading activities.
- ii. *Russian Federation, Turkmenistan, Georgia and Kazakhstan*: engaged in construction activities and also in investment and development of real estate properties and shopping malls in Moscow, Russia.
- iii. Engaged in construction activities in Gabon, Kenya, Djibouti, Mauritania and Equatorial Guinea in Africa; Saudi Arabia, Sri Lanka, India, Oman, Iraq and Afganistan in Asia and also in Mexico and Paraguay.
- iv. *Europe*: engaged in construction and trading activities in Romania, the Netherlands, Switzerland, Greece, Germany and Kosovo.

2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of accounting

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Group’s last annual consolidated financial statements as at and for the year ended 31 December 2017 (‘last annual financial statements’). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance since the last annual financial statements.

These interim financial statements were authorised for issue by the Company’s Board of Directors on 8 November 2018.

The condensed consolidated interim financial statements are presented in U.S. Dollars (“USD”) and all values are rounded to the nearest thousand (’000) except when otherwise indicated.

2.2 Use of judgements and estimates

In preparing these condensed consolidated interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2017.

2.3 Comparative information and reclassification of prior year financial statements

The Group prepares comparative condensed consolidated interim financial statements, to enable readers to determine financial position and performance trends. For the purposes of effective comparison, comparative consolidated financial statements can be reclassified when deemed necessary by the Group, where descriptions on significant differences are disclosed. In the current year, the Group had made no reclassification.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.4 Changes in the accounting policies

With the exception of followings, the accounting policies applied in the interim condensed consolidated financial statements as at and for nine months period ended 30 September 2018 are the same as those applied in the last annual financial statements as at and for the year ended 31 December 2017.

2.4.1 IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized and replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

IFRS 15 establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. Applying IFRS 15, an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The new standart is effective for periods beginning on or after 1 January 2018 and the application of IFRS 15 has not had significant impact on the consolidated financial statements and performance of the group based on the analysis performed.

2.4.2 IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group’s accounting policies related to financial liabilities and derivative financial instruments.

Detailed information on how the Group classifies, measures and recognizes the related income and expenses in accordance with IFRS 9 is presented below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income (“FVOCI”) – debt investment; FVOCI – equity investment; or fair value through profit or loss (“FVTPL”). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.4 Changes in the accounting policies (cont’d)

2.4.2 IFRS 9 Financial Instruments (cont’d)

i. Classification and measurement of financial assets and financial liabilities (cont’d)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

ii. Impairment of financial assets

IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” model. The new impairment model applies to financial assets measured at amortized cost and contract assets but not to investments in equity instruments.

The financial assets at amortized cost consist of trade receivables, cash and cash equivalents.

The Group recognizes loss allowances for the expected credit losses of the following items under IFRS 9:

- financial assets measured at amortized cost;

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.4 Changes in the accounting policies (cont’d)

2.4.2 IFRS 9 Financial Instruments (cont’d)

ii. Impairment of financial assets (cont’d)

The Group measures loss allowances at an amount equal to lifetime expected credit losses, except for the following, which are measured as 12-month expected credit losses:

- bank balances for which credit risk has not increased significantly since initial recognition.

Loss allowances for trade receivables, other receivables, other assets and contract assets are always measured at an amount equal to lifetime expected credit losses.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or the financial asset is more than 360 days past due.

The Group considers bank balances to have low credit risk which is equivalent to the globally understood definition of ‘investment grade’. The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of expected credit losses:

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls.

Expected credit losses are discounted at the effective interest rate of the financial asset.

For trade receivables, other receivables, other assets and contract assets the Group applies the simplified approach to providing for expected credit losses. The expected credit losses were calculated based on actual credit loss experience over the past years.

Credit-impaired financial assets

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

Presentation of impairment

Provision for losses on financial assets measured at amortized cost is deducted from the gross carrying amount of the assets. The impairment loss arising on debt instruments measured at fair value through other comprehensive income, is reflected in other comprehensive income rather than reducing the carrying amount of the financial asset in the statement of financial position.

Impact of the IFRS 9

Since the Group had adopted IFRS 9 (2009) in 2010, IFRS 9 (2014) does not have an impact on the Group’s financial statement in terms of classification and measurement. IFRS 9 (2014) have different impairment model from the IFRS 9 (2009). Such new impairment model has not had a significant impact on the Group’s financial statements based on the analysis performed.

As of 1 January 2018, the Group does not expect that application of IFRS 9 will have significant impact on its consolidated financial statements.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Standards and interpretations issued but not yet effective

As of 30 September 2018, the standards and interpretations issued but not yet effective and not early adopted

Standards issued but not yet effective and not early adopted

New standards, interpretations and amendments to existing standards are not effective at reporting date and earlier application is permitted; however the Group has not early adopted are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

IFRS 16 Leases

On 16 April 2018, POA issued the new leasing standard which will replace IAS 17 *Leases*, IFRS Interpretation 4 *Determining Whether an Arrangement Contains a Lease*, IAS Interpretation 15 *Operating Leases – Incentives*, and IAS Interpretation 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* and consequently changes to IAS 40 *Investment Properties*. IFRS 16 *Leases* eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15 *Revenue from Contracts with Customers*. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

IFRS Interpretation 23 –Uncertainty Over Income Tax Treatments

On 24 May 2018, POA issued IFRS Interpretation 23 *Uncertainty over Income Tax Treatments* to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company’s tax treatment. IAS 12 *Income Taxes* specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRS Interpretation 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Interpretation is effective from 1 January 2019 with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS Interpretation 23.

Amendments to IFRS 9 - Prepayment features with negative compensation

On December 2017, POA has issued amendments to IFRS 9 to clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. Under IFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include ‘reasonable additional compensation’ for early termination of the contract. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 9.

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

Amendments to IAS 28- Long-term Interests in Associates and Joint Ventures

On December 2017, POA has issued amendments to IAS 28 to clarify that entities also apply IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity’s net investment in an associate or joint venture. An entity applies IFRS 9 to such long-term interests before it applies related paragraphs of IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

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2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of significant accounting policies (cont’d)

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (“IASB”) but not issued by POA

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to IFRS by the POA, thus they do not constitute part of IFRS. Such standards, interpretations and amendments that are issued by the IASB but not yet issued by the POA are referred to as IFRS or IAS. The Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under IFRS.

Annual Improvements to IFRSs 2015-2017 Cycle

Improvements to IFRSs

IASB issued Annual Improvements to IFRSs - 2015–2017 Cycle. The amendments are effective as of 1 January 2019. Earlier application is permitted. The Group does not expect that application of these improvements to IFRSs will have significant impact on its consolidated financial statements.

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements

IFRS 3 and IFRS 11 are amended to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.

IAS 12 Income Taxes

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

IAS 23 Borrowing Costs

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

IAS 23 Borrowing Costs

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement -

On 7 February 2018, IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. A company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 19.

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2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of significant accounting policies (cont’d)

The new standards, amendments and interpretations that are issued by the IASB but not issued by POA (cont’d)

The revised Conceptual Framework

The revised Conceptual Framework issued on 28 March 2018 by the IASB. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

3. CHANGES IN OPERATIONAL SEASON

The Group’s operations related to construction slow down during the winter season and differ significantly from other operational areas.

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4. SEGMENTAL INFORMATION

The Group’s operating businesses are organized and managed separately according to the nature of services and products provided and has four reportable segments as follows: construction, rental, energy and trading and manufacturing.

a) Business segments

	1 January - 30 September 2018					
	Construction contracts	Rental	Trade	Energy	Eliminations	Consolidated
Revenues	692,059	244,528	137,805	975,289	-	2,049,681
Inter-segment revenues	60,945	-	6,431	12,554	(79,930)	-
Cost of revenues (-)	(531,956)	(80,147)	(108,652)	(755,639)	-	(1,476,394)
Inter-segment cost of revenues (-)	(60,945)	-	(6,431)	(12,554)	79,930	-
Gross profit	160,103	164,381	29,153	219,650	-	573,287
Administrative expenses (-)	(46,025)	(8,851)	(6,674)	(5,326)	77	(66,799)
Marketing expenses (-)	(9,505)	(3,742)	(6,089)	-	-	(19,336)
Other operating income	64,162	3,221	1,872	6,370	-	75,625
Other operating expenses (-)	(30,146)	(948)	(2,403)	(246)	-	(33,743)
Profit from operations	138,589	154,061	15,859	220,448	77	529,034
Investment income	120,212	222	-	-	-	120,434
Investment expenses (-)	(380,962)	-	-	-	-	(380,962)
Profit from operations before financial income / (expenses)	(122,161)	154,283	15,859	220,448	77	268,506
Financial income	12,990	2,424	14,802	19,542	(1,824)	47,934
Financial expenses (-)	(12,143)	(5,357)	(2,009)	(11,682)	1,825	(29,366)
Profit / (loss) before tax	(121,314)	151,350	28,652	228,308	78	287,074
Current tax expense (-)	(23,531)	(20,871)	(2,948)	(30,828)	-	(78,178)
Deferred taxation income/ (expenses)	(9,809)	(6,106)	(2,376)	(23,158)	-	(41,449)
Profit / (loss) for the period from continuing operations	(154,654)	124,373	23,328	174,322	78	167,447
	30 September 2018					
	Construction contracts	Rental	Trade	Energy		Consolidated
Segment assets	4,104,007	2,082,072	264,777	1,428,374		7,879,230
Total assets	4,104,007	2,082,072	264,777	1,428,374		7,879,230
Segment liabilities	692,978	395,273	129,955	544,326		1,762,532
Total liabilities	692,978	395,273	129,955	544,326		1,762,532
	1 January - 30 September 2018					
Other segment information	Construction contracts	Rental	Trade	Energy		Consolidated
<u>Capital expenditures</u>						
Property, plant and equipment & investment property	50,435	54,696	299	1,707		107,137
Intangible assets	4,729	62	-	163		4,954
Total capital expenditures	55,164	54,758	299	1,870		112,091
Depreciation expense	28,607	1,935	835	40,113		71,490
Amortisation	1,800	75	38	115		2,028

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(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

4. SEGMENTAL INFORMATION (cont’d)

a) Business segments(cont’d)

	1 July - 30 September 2018					Consolidated
	Construction contracts	Rental	Trade	Energy	Eliminations	
Revenues	254,175	83,299	26,745	442,618	-	806,837
Inter-segment revenues	12,289	-	2,077	3,261	(17,627)	-
Cost of revenues (-)	(189,965)	(16,988)	(21,542)	(374,215)	-	(602,710)
Inter-segment cost of revenues (-)	(12,289)	-	(2,077)	(3,261)	17,627	-
Gross profit	64,210	66,311	5,203	68,403	-	204,127
Administrative expenses (-)	(15,710)	(2,524)	(1,045)	(1,369)	23	(20,625)
Marketing expenses (-)	(3,594)	(1,150)	(1,424)	-	-	(6,168)
Other operating income	53,137	14	335	2,575	-	56,061
Other operating expenses (-)	(17,941)	(99)	(1,315)	(77)	-	(19,432)
Profit from operations	80,102	62,552	1,754	69,532	23	213,963
Investment income	45,746	222	-	-	-	45,968
Investment expenses (-)	(173,299)	-	-	-	-	(173,299)
Profit from operations before financial income / (expenses)	(47,451)	62,774	1,754	69,532	23	86,632
Financial income	5,613	488	5,642	8,717	(503)	19,957
Financial expenses (-)	(856)	(2,060)	1,768	(7,194)	615	(7,727)
Profit before tax	(42,694)	61,202	9,164	71,055	135	98,862
Current tax expense (-)	(7,740)	(7,410)	105	(5,817)	-	(20,862)
Deferred taxation income/ (expenses)	(15,526)	(2,388)	(3,180)	(9,706)	-	(30,800)
Profit for the period from continuing operations	(65,960)	51,404	6,089	55,532	135	47,200

	1 July - 30 September 2018				Consolidated
	Construction contracts	Rental	Trade and manufacturing	Energy	
Other segment information					
<u>Capital expenditures</u>					
Property, plant and equipment & investment property	5,338	4,495	4	30	9,867
Intangible assets	1,121	29	-	31	1,181
Total capital expenditures	6,459	4,524	4	61	11,048
Depreciation expense	8,743	601	108	13,474	22,926
Amortisation	615	37	4	39	695

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(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

4. SEGMENTAL INFORMATION (cont’d)

a) Business segments(cont’d)

	1 January - 30 September 2017					
	Construction contracts	Rental	Trade	Energy	Eliminations	Consolidated
Revenues	753,114	235,508	177,900	1,037,545	-	2,204,067
Inter-segment revenues	96,461	-	2,705	13,581	(112,747)	-
Cost of revenues (-)	(594,488)	(78,078)	(142,010)	(852,236)	-	(1,666,812)
Inter-segment cost of revenues (-)	(96,461)	-	(2,705)	(13,581)	112,747	-
Gross profit	158,626	157,430	35,890	185,309	-	537,255
Administrative expenses (-)	(48,420)	(13,180)	(7,187)	(6,036)	-	(74,823)
Marketing expenses (-)	(10,870)	(4,238)	(8,360)	(10)	-	(23,478)
Other operating income	15,467	1,125	636	391	-	17,619
Other operating expenses (-)	(10,203)	(4,007)	(1,134)	(60)	-	(15,404)
Profit from operations	104,600	137,130	19,845	179,594	-	441,169
Investment income	315,203	-	11	41	-	315,255
Investment expenses (-)	(81,430)	-	-	-	-	(81,430)
Profit from operations before financial income / (expenses)	338,373	137,130	19,856	179,635	-	674,994
Financial income	6,476	3,303	3,836	3,388	(2,494)	14,509
Financial expenses (-)	(7,180)	(2,344)	(2,121)	(143)	2,656	(9,132)
Profit before tax	337,669	138,089	21,571	182,880	162	680,371
Current tax expense (-)	(35,313)	(28,448)	(4,496)	(21,861)	-	(90,118)
Deferred taxation income/ (expenses)	(5,907)	(2,225)	(1,350)	(19,967)	-	(29,449)
Profit for the period from continuing operations	296,449	107,416	15,725	141,052	162	560,804
	31 December 2017					
	Construction contracts	Rental	Trade	Energy		Consolidated
Segment assets	4,232,520	2,204,963	230,174	1,363,632		8,031,289
Total assets	4,232,520	2,204,963	230,174	1,363,632		8,031,289
Segment liabilities	696,449	430,388	91,396	529,243		1,747,476
Total liabilities	696,449	430,388	91,396	529,243		1,747,476
	1 January - 30 September 2017					
Other segment information	Construction contracts	Rental	Trade	Energy		Consolidated
<u>Capital expenditures</u>						
Property, plant and equipment & investment property	61,356	91,778	266	28,281		181,681
Intangible assets	2,572	136	112	114		2,934
Total capital expenditures	63,928	91,914	378	28,395		184,615
Depreciation expense	30,835	2,617	772	40,714		74,938
Amortisation	1,629	72	60	98		1,859

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2018

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4. SEGMENTAL INFORMATION (cont’d)

a) Business segments(cont’d)

	1 July - 30 September 2017					
	Construction contracts	Rental	Trade	Energy	Eliminations	Consolidated
Revenues	295,936	79,502	56,493	410,774	-	842,705
Inter-segment revenues	33,320	-	868	4,027	(38,215)	-
Cost of revenues (-)	(219,584)	(24,908)	(44,412)	(348,247)	-	(637,151)
Inter-segment cost of revenues (-)	(33,320)	-	(174)	(4,027)	37,521	-
Gross profit	76,352	54,594	12,775	62,527	(694)	205,554
Administrative expenses (-)	(19,023)	(6,274)	(2,175)	(1,854)	-	(29,326)
Marketing expenses (-)	(3,738)	(1,187)	(2,772)	-	-	(7,697)
Other operating income	9,629	259	(93)	152	-	9,947
Other operating expenses (-)	(4,815)	(2,763)	(572)	(27)	-	(8,177)
Profit from operations	58,405	44,629	7,163	60,798	(694)	170,301
Investment income	81,770	-	11	-	-	81,781
Investment expenses (-)	(38,734)	744	-	-	-	(37,990)
Profit from operations before financial income / (expenses)	101,441	45,373	7,174	60,798	(694)	214,092
Financial income	2,619	2,003	2,158	349	(1,153)	5,976
Financial expenses (-)	(32)	(62)	(547)	(56)	1,008	311
Profit before tax	104,028	47,314	8,785	61,091	(839)	220,379
Current tax expense (-)	(10,113)	(10,609)	(1,486)	(7,188)	-	(29,396)
Deferred taxation income/ (expenses)	(1,026)	109	(1,751)	(5,936)	-	(8,604)
Profit for the period from continuing operations	92,889	36,814	5,548	47,967	(839)	182,379

	1 July - 30 September 2017				
	Construction contracts	Rental	Trade and manufacturing	Energy	Consolidated
Other segment information					
<u>Capital expenditures</u>					
Property, plant and equipment & investment property	17,728	25,367	21	155	43,271
Intangible assets	194	44	20	59	317
Total capital expenditures	17,922	25,411	41	214	43,588
Depreciation expense	10,001	990	312	13,942	25,245
Amortisation	532	33	24	34	623

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4. SEGMENTAL INFORMATION (cont’d)

a) Business segments(cont’d)

Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated in consolidation. For the period ended 30 September 2018, revenues amounting to USD 975,289 (30 September 2017 - USD 1,037,465) is from Türkiye Elektrik Ticaret ve Taahhüt A.Ş. (TETAŞ), the share of which in consolidated revenue exceeds 10%. For the period ended 30 September 2018, cost of sales of the above mentioned revenues from TETAŞ, amounting to USD 666,856 (30 September 2017 - USD 724,729) is related with the purchases from Boru Hatları ile Petrol Taşıma A.Ş. (BOTAŞ), the share of which in consolidated cost of revenues exceeds 10%.

b) Geographical segments

	1 January - 30 September 2018					
	Turkey	Russian Federation, Kazakhstan and Georgia	Iraq	Other	Eliminations	Consolidated
Net sales	1,264,856	471,643	89,790	223,392	-	2,049,681
Inter-segment sales	38,453	41,477	-	-	(79,930)	-
Capital expenditures	34,257	57,636	12,360	7,838	-	112,091
	30 September 2018					
	Turkey	Russian Federation, Kazakhstan and Georgia	Iraq	Other	Eliminations	Consolidated
Segmental assets	4,917,171	2,562,015	92,452	307,592	-	7,879,230
	1 July - 30 September 2018					
	Turkey	Russian Federation, Kazakhstan and Georgia	Iraq	Other	Eliminations	Consolidated
Net sales	530,345	152,734	21,279	102,479	-	806,837
Inter-segment sales	10,118	7,509	-	-	(17,627)	-
Capital expenditures	5,983	4,219	(1,308)	2,154	-	11,048
	1 January - 30 September 2017					
	Turkey	Russian Federation, Kazakhstan and Georgia	Iraq	Other	Eliminations	Consolidated
Net sales	1,459,531	494,615	110,473	139,448	-	2,204,067
Inter-segment sales	33,696	79,051	-	-	(112,747)	-
Capital expenditures	83,043	93,918	226	7,428	-	184,615

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4. SEGMENTAL INFORMATION (cont’d)

b) Geographical segments(cont’d)

	31 December 2017					
	Turkey	Russian Federation, Kazakhstan and Georgia	Iraq	Other	Eliminations	Consolidated
Segmental assets	5,073,605	2,630,522	101,135	226,027	-	8,031,289
	1 July - 30 September 2017					
	Turkey	Russian Federation, Kazakhstan	Europe	Iraq & Other	Eliminations	Consolidated
Net sales	559,682	177,079	44,755	61,189	-	842,705
Inter-segment sales	10,549	27,666	-	-	(38,215)	-
Capital expenditures	11,384	26,235	133	5,836	-	43,588

5. CONSTRUCTION CONTRACTS

The Group’s construction contracts details as of 30 September 2018 and 31 December 2017 is as follows:

	30 September 2018	31 December 2017
Costs incurred on uncompleted contracts	2,797,591	2,259,859
Recognized profit less recognized losses to date, net	506,901	384,951
	<u>3,304,492</u>	<u>2,644,810</u>
Less: Progress billing	(3,454,475)	(2,900,271)
	<u>(149,983)</u>	<u>(255,461)</u>
	30 September 2018	31 December 2017
Costs and estimated earnings in excess of billings on uncompleted contracts (net)	34,972	12,168
Billings in excess of costs and estimated earnings on uncompleted contracts (net)	(184,955)	(267,629)
	<u>(149,983)</u>	<u>(255,461)</u>

As of 30 September 2018, the amount of advances received of subsidiaries and companies shares in joint operations is USD 42,203 (31 December 2017: USD 26,322).

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6. INVESTMENT PROPERTIES

As of 30 September 2018 and 2017, movement of investment properties is as follows:

	<u>1 January - 30 September 2018</u>	<u>1 January - 30 September 2017</u>
Opening balance	2,081,941	1,886,911
Currency translation difference	(173,696)	52,075
Additions	53,705	90,264
Closing balance	<u>1,961,950</u>	<u>2,029,250</u>

7. PROPERTY, PLANT AND EQUIPMENT

During the period ended 30 September 2018 the Group purchased property plant and equipment amounting to USD 58,386 (30 September 2017: USD 91,417). In addition during the period ended 30 September 2018 net book value of USD 5,480 (30 September 2017: USD 3,184) property plant and equipment sold for USD 6,310 (30 September 2017: USD 3,346).

8. COMMITMENTS

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

Litigations

During the period ended 30 September 2018, the Group does not have any legal claims or progress to existing legal claims that need additional explanation other than disclosed as of 31 December 2017 the consolidated financial statements. The Group properly records the provision related to these carried forward legal claims. Provision rates and probable outflows are considered while estimating the provisions. The Group does not record provision for the legal claims that would not result in a probable cash outflow.

Commitments and contingencies

The breakdown of letters of guarantee, guarantee notes given, mortgage and pledges (together referred to as Guarantees) by the Group as of 30 September 2018 and 31 December 2017 is as follows:

Letters of guarantee, guarantee notes given, mortgage and pledges	30 September 2018		31 December 2017	
	Original Currency	USD Equivalent	Original Currency	USD Equivalent
A. Total amount of guarantees provided by the Company on behalf of itself		630,826		510,867
-USD	408,513	408,513	346,577	346,577
-EUR	124,547	144,513	76,192	91,213
-TL	105,132	17,551	79,838	21,166
-Others (*)		60,249		51,911
B. Total amount for guarantees provided on behalf of subsidiaries accounted under full consolidation method		86,781		69,282
-USD	85	85	85	85
-EUR	-	-	-	-
-TL	826	138	826	219
-Others (*)		86,558		68,978
C. Provided on behalf of third parties in order to maintain operating activities (to secure third party payables)				-
D. Other guarantees given		-		-
i. Total amount of guarantees given on behalf of the parent company				-
ii. Total amount of guarantees provided on behalf of the associates which are not in the scope of B and C				-
iii. Total amount of guarantees provided on behalf of third parties which are not in the scope of C				-
		<u>717,607</u>		<u>580,149</u>

(*) U.S Dollar equivalents of letters of guarantee, guarantee notes given, mortgage and pledges other than USD, TL and EUR. As of 30 September 2018 the portion of other guarantess given to shareholders' equity is 0% (31 December 2017 - 0%).

9. RELATED PARTY BALANCES AND TRANSACTIONS

No extraordinary or significant transaction is realized with related parties throughout the interim period.

10. SHARE CAPITAL AND RESERVES

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

The shareholders of the Group and their percentage of ownership as of 30 September 2018 and 31 December 2017 is as follows:

	30 September 2018		31 December 2017	
	Percentage of ownership	Amount	Percentage of ownership	Amount
Tara Holding A.Ş.	49.72%	1,312,279	49.52%	1,266,129
Vildan Gülçelik	7.99%	210,883	7.99%	204,289
Sevda Gülçelik	6.43%	169,709	6.43%	164,402
Enka Spor Eğitim ve Sosyal Yardım Vakfı	5.87%	154,929	5.87%	150,084
Other	29.99%	791,538	30.19%	771,899
	100%	2,639,338	100%	2,556,803
Purchase of treasury shares (*)		(49,139)		(25,866)
		2,590,199		2,530,937

Based on the Group’s Ordinary General Assembly held on 28 March 2018; it has been resolved to increase the share capital from TL 4,600,000 to TL 5,000,000; and to cover TL 400,000 from the Reserves / (Dividend).

Based on the Group’s Ordinary General Assembly held on 28 March 2018; regarding to the distribution of the year 2017 profit, it has been resolved to distribute dividend to its shareholders for each TL 1 (full TL) nominal valued share net in total TL 901,000 (2017 - TL 784,000); further it has been resolved to distribute TL 32,348 (2017 - TL 29,352) as cash dividend to founder shares. Net in total TL 165,000 from TL 901,000 has been distributed as an advance dividend on 27 September 2017, net in total TL 184,000 from TL 901,000 has been distributed as an advance dividend on 13 December 2017 and the remaining amount net in total TL 552,000 is distributed on 17 April 2018.

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Foreign currency risk

The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to Euro, Russian Ruble, TL and also U.S Dollar which arises from the liabilities belonging to the companies in the consolidation scope, whose the functional currency is not U.S Dollar.

The Group is engaged in construction, trading, energy and real estate operations business in several countries and, as a result, is exposed to movements in foreign currency exchange rates. In addition to transactional exposures, the Group is also exposed to foreign exchange movements on its net investments in foreign subsidiaries.

The Group manages foreign currency risk by using natural hedges that arise from offsetting foreign currency denominated assets and liabilities.

The foreign currency risk of the Group arises from the credits used in U.S. Dollars and Euro. In order to mitigate the risk, the Group continuously monitors its cash inflows/outflows and also uses financial instruments to hedge the risk when it is necessary.

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont’d)

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

Foreign currency risk (cont’d)

The following table details the Group’s foreign currency position as at 30 June 2018 and 31 December 2017:

	30 September 2018	31 December 2017
A. Assets denominated in foreign currency	781,097	819,844
B. Liabilities denominated in foreign currency	(431,166)	(406,852)
Net foreign currency position (A+B)	<u>349,931</u>	<u>412,992</u>

The Group’s foreign currency position at 30 September 2018 and 31 December 2017 is as follows (non monetary items are not included in the table as they don’t have foreign currency risk):

	30 September 2018						Total USD Equivalent
	TL	USD Equivalent	Euro	USD Equivalent	Other USD (*)	USD (**)	
Cash and cash equivalents	32,598	5,442	57,841	67,113	163,718	20,031	256,304
Financial investments	263,172	43,934	107,778	125,055	60,133	-	229,122
Trade and other receivables	85,950	14,348	56,274	65,295	22,370	5,421	107,434
Other current assets	200,250	33,430	27,526	31,939	19,104	46,658	131,131
Current assets	581,970	97,154	249,419	289,402	265,325	72,110	723,991
Financial investments	-	-	11,423	13,255	35,396	-	48,651
Trade and other receivables	-	-	-	-	-	-	-
Other non-current assets	12,866	2,148	13	15	6,292	-	8,455
Non-current assets	12,866	2,148	11,436	13,270	41,688	-	57,106
Total assets	594,836	99,302	260,855	302,672	307,013	72,110	781,097
Short-term borrowings	417	70	14,286	16,576	44,493	-	61,139
Trade and other payables	56,657	9,458	46,660	54,140	60,220	695	124,513
Other current liabilities and accrued expenses	351,702	58,713	15,103	17,523	44,409	24,128	144,773
Current liabilities	408,776	68,241	76,049	88,239	149,122	24,823	330,425
Trade and other payables	-	-	-	-	-	-	-
Long-term borrowings	-	-	28,572	33,152	65,120	-	98,272
Other non-current liabilities	1,031	172	63	73	-	2,224	2,469
Non-current liabilities	1,031	172	28,635	33,225	65,120	2,224	100,741
Total liabilities	409,807	68,413	104,684	121,464	214,242	27,047	431,166
Net foreign currency position	185,029	30,889	156,171	181,208	92,771	45,063	349,931
Net notional amount of derivatives	-	-	36,030	41,806	-	-	41,806

(*) U.S.Dollar equivalents of the foreign currency balances other than TL and Euro.

(**) U.S.Dollar balances of consolidated subsidiaries and joint ventures whose functional currency is other than U.S.Dollar.

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont’d)

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2018**

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

Foreign currency risk (cont’d)

	31 December 2017						Total USD Equivalent
	TL	USD Equivalent	Euro	USD Equivalent	Other USD (*)	USD (**)	
Cash and cash equivalents	23,571	6,249	72,952	87,331	189,815	16,798	300,193
Financial investments	286,925	76,069	101,119	121,050	48,303	-	245,422
Trade and other receivables	122,326	32,431	21,694	25,970	23,301	3,629	85,331
Other current assets	207,691	55,063	3,998	4,785	19,705	42,825	122,378
Current assets	640,513	169,812	199,763	239,136	281,124	63,252	753,324
Financial investments	-	-	12,341	14,773	40,485	-	55,258
Trade and other receivables	10	3	-	-	-	-	3
Other non-current assets	9,192	2,437	35	42	4,276	4,504	11,259
Non-current assets	9,202	2,440	12,376	14,815	44,761	4,504	66,520
Total assets	649,715	172,252	212,139	253,951	325,885	67,756	819,844
Short-term borrowings	7	2	33,500	40,103	15,628	-	55,733
Trade and other payables	56,151	14,887	14,083	16,859	28,339	348	60,433
Other current liabilities and accrued expenses	340,102	90,167	4,061	4,861	40,858	18,946	154,832
Current liabilities	396,260	105,056	51,644	61,823	84,825	19,294	270,998
Trade and other payables	11	3	-	-	-	-	3
Long-term borrowings	-	-	50,090	59,963	72,921	-	132,884
Other non-current liabilities	3,180	843	-	-	-	2,124	2,967
Non-current liabilities	3,191	846	50,090	59,963	72,921	2,124	135,854
Total liabilities	399,451	105,902	101,734	121,786	157,746	21,418	406,852
Net foreign currency position	250,264	66,350	110,405	132,165	168,139	46,338	412,992
Net notional amount of derivatives	-	-	76,075	91,069	-	89,948	181,017

(*) U.S.Dollar equivalents of the foreign currency balances other than TL and Euro.

(**) U.S.Dollar balances of consolidated subsidiaries and joint ventures whose functional currency is other than U.S.Dollar.

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont’d)

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

Foreign currency risk (cont’d)

	30 September 2018		31 December 2017	
	Profit / (loss)		Profit / (loss)	
	Valuation of foreign currency	Devaluation of foreign currency	Valuation of foreign currency	Devaluation of foreign currency
<i>In the case of TL gaining 10% value against US Dollar</i>				
1- TL net asset / (liability)	3,089	(3,089)	6,635	(6,635)
2- Portion hedged against TL risk (-)	-	-	-	-
3- TL net effect (1+2)	3,089	(3,089)	6,635	(6,635)
<i>In the case of Euro gaining 10% value against US Dollar</i>				
4- Euro net asset / (liability)	18,121	(18,121)	13,217	(13,217)
5- Portion hedged against Euro risk (-)	4,181	(4,181)	9,107	(9,107)
6- Euro net effect (4+5)	22,302	(22,302)	22,324	(22,324)
<i>In the case of other foreign currencies gaining 10% value against US Dollar</i>				
7- Other foreign currency net asset / (liability)	9,277	(9,277)	16,814	(16,814)
8- Portion hedged against other foreign currency risk (-)	-	-	8,995	(8,995)
9- Other foreign currency net effect (7+8)	9,277	(9,277)	25,809	(25,809)
Total (3+6+9)	34,668	(34,668)	54,768	(54,768)

12. FINANCIAL INSTRUMENTS – FAIR VALUE EXPLANATIONS AND ACCOUNTING POLICY FOR HEDGING FINANCIAL RISK

Fair value of financial assets and liabilities

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

Foreign currency denominated receivables and payables are revalued with the exchange rates valid as of the date of the financial statements.

The following methods and assumptions were used to estimate the fair value of the financial instruments that are not carried at fair value on the balance sheet:

Financial assets

The fair values of cash, amounts due from banks and other monetary assets are considered to approximate their respective carrying values due to their short-term nature. The carrying values of trade receivables are estimated to be their fair values due to their short-term nature. It is considered that the fair values of the long term receivables are approximate to their respective carrying values as they are accounted for in foreign currencies.

Financial liabilities

The fair values of trade payables and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature. The fair values of bank borrowings are considered to approximate their respective carrying values, since initial rates applied to bank borrowings are updated periodically by the lender to reflect active market price quotations. The fair values of the trade receivables after discount are considered to be approximate to their corresponding carrying values. It is considered that the fair values of the long term payables and long term financial borrowings are approximate to their respective carrying values as they are accounted for in foreign currencies.

12. FINANCIAL INSTRUMENTS – FAIR VALUE EXPLANATIONS AND ACCOUNTING POLICY FOR HEDGING FINANCIAL RISK (cont’d)

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

Fair value hierarchy

The Group classifies the fair value measurement of each class of financial instruments that are measured at fair value on the balance sheet, according to the source, using three-level hierarchy, as follows:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

30 September 2018

	Level 1	Level 2	Level 3
Private sector bonds	1,316,314	-	-
Equity securities	472,035	-	-
Foreign government bonds	390,116	-	-
Turkish government bonds	22,976	-	-
Mutual funds	41,724	-	-
Financial assets at fair value through profit or loss	2,243,165	-	-
Derivative instruments	-	2,392	-
Financial liabilities at fair value through profit or loss	-	2,392	-

31 December 2017

	Level 1	Level 2	Level 3
Private sector bonds	1,786,574	-	-
Equity securities	323,758	-	-
Foreign government bonds	457,950	-	-
Turkish government bonds	15,955	-	-
Mutual funds	113,321	-	-
Financial assets at fair value through profit or loss	2,697,558	-	-
Derivative instruments	-	3,881	-
Financial liabilities at fair value through profit or loss	-	3,881	-

13. SUBSEQUENT EVENTS

On 17 August 2018, according to the press release of the Capital Markets Board of Turkey (the Board) dated 25.07.2016 in order to protect the interests of minority shareholders, Board of Directors has resolved to buyback the shares up to nominal value of TL 10,000,000 to determine the funds to be reserved as TL 75,000,000 for this purpose and to authorize Executive Committee Member İlhan Gücüyener for the transactions till the second announcement of the Board. The Group has bought back the nominal value of TL 2,370,000 shares within the reporting period and after the reporting period, as of 08.11.2018, the Group has bought back the nominal value of TL 3,630,000 as an addition.