

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

**CONSOLIDATED FINANCIAL
STATEMENTS AS AT AND FOR THE
YEAR ENDED
31 DECEMBER 2018 WITH
INDEPENDENT AUDITORS' REPORT**

5 March 2019

This report includes 6 pages of independent auditors' report and 82 pages of consolidated financial statements together with their explanatory notes.



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

Independent Auditors' Report

To the Shareholder's of Enka İnşaat ve Sanayi Anonim Şirketi

Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Enka İnşaat ve Sanayi Anonim Şirketi ("the Company") and its subsidiaries and joint operations ("collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Turkey and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key Audit Matters

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

Revenue recognition

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

| Key Audit Matter | How the matter was addressed in our audit |
|---|--|
| <p>Revenue recognition on construction contracts</p> <p>Revenue derived from construction contracts represents 35% of the Group's total revenue.</p> <p>The measurement and timing of the revenue arising from construction contracts in the period in which they are incurred calculated and recognized by using the input method under the IFRS 15 Revenue from Contracts with Customer. The input method recognizes the revenue in the financial statements by comparing the costs incurred by the Group for the fulfillment of performance obligations in a construction project to the expected total costs for the fulfillment of the performance of the obligation to the financial statements.</p> <p>The measurement of contract revenue and estimation of the contract costs have been affected by a variety of uncertainties that depend on the outcome of future events and the management's estimates and judgements need to be revised as events occurred. Revenue recognition on construction contracts was considered to be a key audit matter, due to the significance of the estimates and the level of judgement applied by management.</p> | <p>Our audit procedures included:</p> <ul style="list-style-type: none"> • We assessed the terms and conditions of the significant contracts in order to evaluate the management's estimate whether revenue is recognized within the related period. • We evaluated and tested the operating effectiveness of controls over the relevant processes regarding the accuracy and timing of revenue recognized in the financial statements. • The costs incurred by the Group in ongoing construction projects have been tested by using sampling method. • The contract revenue associated with the construction contract have been recalculated by using the stage of completion method. • We assessed the management's ability to deliver contracts within budgeted margins by analysing the historical accuracy of forecasting margins and the relationship of cost versus billing status on contracts. • We assessed the adequacy of the disclosures of revenue described in notes to consolidated financial statements under IFRS. |



Impairment of Goodwill

Refer to Note 2.5 to the consolidated financial statements for summary of significant accounting policies and significant accounting assessments, estimates and assumptions for goodwill impairment.

| Key Audit Matter | How the matter was addressed in our audit |
|--|--|
| <p>Impairment of intangible assets (goodwill)</p> <p>The Group, in the consolidated financial statements for the year ended 31 December 2018, has reduced the goodwill amount to zero by reflecting the impairment loss of USD 22,077 thousand in the current period.</p> <p>In accordance with IFRS, intangible assets with indefinite useful lives to which goodwill has been allocated shall be tested for impairment annually. Within this scope, significant estimates and assumptions applied by management have been used to determine impairment.</p> <p>These estimates and assumptions are based on the long term growth rate used to determine the cash generating unit's future cash flows, discount rates used to determine present value of future cash flows, inflation and foreign currency rates. These estimates and assumptions are highly sensitive to the expected future market conditions.</p> <p>Due to the estimates and judgements used for goodwill impairment test included appropriate considerations, we have identified this matter as a key audit matter.</p> | <p>Our audit procedures included:</p> <ul style="list-style-type: none">• We evaluated management's future cash flow forecasts by which they were determined with macroeconomic data, by comparing them to historical results checking that the forecast were consistent and confirming the mathematical accuracy of the underlying calculations.• We evaluated the appropriateness of the key assumptions, long term growth rates used in the calculations, discount rates used to determine present value of future cash flows.• We assessed the adequacy of the disclosures of goodwill described in notes to consolidated financial statements under IFRS. |



Measurement of Investment Property

Refer to Note 2.5 to the consolidated financial statements for summary of significant accounting policies and significant accounting assessments, estimates and assumptions for investment properties.

| Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| <p>Valuation of investment property</p> <p>As of 31 December 2018, the investment properties represent 24% of the Group's total assets.</p> <p>The Group measures the investment properties at fair values. The Group has appointed independent valuation firms to determine the fair values of investment properties.</p> <p>Valuation of investment property was considered to be a key audit matter, due to significant estimates and judgement used in valuation methods to determine fair value of investment properties.</p> | <p>Our audit procedures included:</p> <ul style="list-style-type: none"> • We evaluated the qualifications and competence of the external valuers appointed by the Management for valuation of investment property. • We evaluated the appropriateness of the key assumptions such as long term growth rates used in the calculations, discount rates used to determine present value of future cash flows. • We evaluated the appropriateness of the key inputs used in valuation reports such as rental income, duration, management fee, yields and occupancy rate. • We assessed the adequacy of the disclosures of investment properties described in notes to consolidated financial statements under IFRS. |

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

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

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

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



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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



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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of KPMG International Cooperative

Erdal Tıkmak, SMMM
Partner

5 March 2019
İstanbul, Turkey

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ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)
AS AT 31 DECEMBER 2018**

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated.)

| ASSETS | Notes | 31 December 2018 | 31 December 2017 |
|--|--------------|-----------------------------|-----------------------------|
| Current Assets | | 2,521,452 | 2,086,281 |
| Cash and cash equivalents | 6 | 626,712 | 781,718 |
| Financial investments | 7 | 899,517 | 578,886 |
| Trade receivables | 9 | 505,938 | 306,459 |
| Other receivables | | | |
| Other receivables from related parties | 10,33 | 20 | 21 |
| Other receivables from third parties | 10 | 1,033 | 793 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 12 | 45,203 | 12,168 |
| Prepaid expenses | 17 | 45,890 | 90,103 |
| Inventories | 11 | 307,082 | 223,772 |
| Other current assets | 21 | 66,681 | 68,725 |
| | | <u>2,498,076</u> | <u>2,062,645</u> |
| Assets held for sale | 30 | 23,376 | 23,636 |
| Non-Current Assets | | 5,274,829 | 5,945,008 |
| Financial investments | 7 | 1,725,464 | 2,118,672 |
| Trade receivables | 9 | 44,103 | 46,877 |
| Investment properties | 13 | 1,891,078 | 2,081,941 |
| Property, plant and equipment | 14 | 1,554,394 | 1,614,651 |
| Intangible assets | | | |
| Goodwill | 16 | - | 22,077 |
| Other intangible assets | 15 | 44,062 | 34,959 |
| Prepaid expenses | 17 | 6,426 | 18,745 |
| Deferred tax assets | 31 | 5,415 | 2,759 |
| Other non-current assets | 21 | 3,887 | 4,327 |
| TOTAL ASSETS | | <u>7,796,281</u> | <u>8,031,289</u> |

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

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS AT 31 DECEMBER 2018

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated.)

| LIABILITIES | Notes | 31 December 2018 | 31 December 2017 |
|--|--------------|-----------------------------|-----------------------------|
| Current Liabilities | | 913,251 | 949,558 |
| Short-term borrowings | 8 | 54,540 | 40,105 |
| Current portion of long-term borrowings | 8 | 18,914 | 37,598 |
| Trade payables | 9 | 344,400 | 153,562 |
| Payables to employees | 20 | 19,751 | 26,704 |
| Other payables | | | |
| Payables to related parties | 10,33 | 29 | 34 |
| Payables to third parties | 10 | 20,776 | 19,513 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 12 | 167,209 | 267,629 |
| Deferred income | 17 | 139,368 | 224,234 |
| Taxation on income | 31 | 53,126 | 60,188 |
| Provisions | | | |
| Provisions for employee benefits | 20 | 14,780 | 20,460 |
| Other provisions | 18 | 51,630 | 50,795 |
| Other current liabilities | 21 | 28,728 | 48,736 |
| Non-Current Liabilities | | 701,812 | 797,918 |
| Long-term borrowings | 8 | 178,355 | 233,807 |
| Trade payables | 9 | - | 59,002 |
| Other payables | 10 | 25,009 | 17,997 |
| Deferred income | 17 | 1,079 | 4,412 |
| Provisions for employee benefits | 20 | 13,309 | 15,520 |
| Deferred tax liabilities | 31 | 484,060 | 467,180 |
| EQUITY | | 6,181,218 | 6,283,813 |
| Equity Attributable to Equity Holders of the Parent | | 6,102,790 | 6,207,493 |
| Share capital | 22 | 2,639,338 | 2,556,803 |
| Treasury shares | 22 | (55,725) | (25,866) |
| Revaluation surplus | 22 | 169,342 | 176,262 |
| Currency translation difference | | (1,311,178) | (1,094,940) |
| Other reserves | | (1,644) | 280 |
| Legal reserves and accumulated profit | | 4,662,657 | 4,594,954 |
| Non-Controlling Interests | | 78,428 | 76,320 |
| TOTAL LIABILITIES AND EQUITY | | 7,796,281 | 8,031,289 |

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

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated.)

| | Notes | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---|-------|------------------------------------|------------------------------------|
| CONTINUING OPERATIONS | | | |
| Revenue | 5,23 | 2,881,443 | 2,899,584 |
| Cost of revenues (-) | 5,23 | (2,152,766) | (2,148,974) |
| GROSS PROFIT | | 728,677 | 750,610 |
| Administrative expenses (-) | 5,24 | (90,261) | (101,616) |
| Marketing, selling and distribution expenses (-) | 5,24 | (22,926) | (26,612) |
| Other operating income | 5,26 | 77,131 | 42,221 |
| Other operating expenses (-) | 5,26 | (31,210) | (26,209) |
| PROFIT FROM OPERATIONS | | 661,411 | 638,394 |
| Income from investing activities | 5,27 | 203,160 | 405,438 |
| Expenses from investing activities (-) | 5,27 | (403,993) | (173,694) |
| OPERATING PROFIT | | 460,578 | 870,138 |
| BEFORE FINANCE EXPENSES | | | |
| Financial income | 5,28 | 54,265 | 23,241 |
| Financial expenses (-) | 5,29 | (51,983) | (18,172) |
| PROFIT BEFORE TAX | | 462,860 | 875,207 |
| FROM CONTINUING OPERATIONS | | | |
| Current tax expense (-) | 5,31 | (99,692) | (118,025) |
| Deferred tax expense (-) | 5,31 | (29,168) | (43,186) |
| PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS | | 334,000 | 713,996 |
| NET PROFIT FOR THE YEAR | | 334,000 | 713,996 |
| Attributable to: | | | |
| Non-controlling interests | | 6,464 | 9,438 |
| Equity holders of the parent | | 327,536 | 704,558 |
| | | 334,000 | 713,996 |
| Earning per share from continuing operations | | | |
| - ordinary share certificate (full USD) | 32 | 0.07 | 0.14 |
| Weighted average number of shares | | | |
| (Weighted average number of shares of 1 Full TL each) | | 4,950,000,000 | 4,950,000,000 |

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

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated.)

| | Notes | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--|-------|------------------------------------|------------------------------------|
| NET PROFIT FOR THE YEAR | | 334,000 | 713,996 |
| Other Comprehensive Income: | | | |
| <i>Items that will not be reclassified subsequently to profit or loss</i> | | <i>(5,221)</i> | <i>(5,363)</i> |
| Gains / (losses) on revaluation of property, plant and equipment | 22 | 1,213 | (5,787) |
| Remeasurement of defined benefit plans | 20 | 453 | (1,345) |
| Changes in currency translation difference | 22 | (1,068) | 315 |
| Income tax relating items that will not be reclassified subsequently to profit or loss | | (5,819) | 1,454 |
| Income tax relating to gains / (losses) | | | |
| on revaluation of property, plant and equipment | 31 | (5,728) | 1,185 |
| Income tax relating to remeasurement of defined benefit plans | 31 | (91) | 269 |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | <i>(222,048)</i> | <i>102,696</i> |
| Changes in currency translation difference | | (220,124) | 102,696 |
| Gains (Losses) on financial assets measured at fair value through other comprehensive income | | (1,924) | - |
| OTHER COMPREHENSIVE INCOME / (LOSS) | | (227,269) | 97,333 |
| TOTAL COMPREHENSIVE INCOME | | 106,731 | 811,329 |
| Attributable to: | | | |
| Non-controlling interests | | 2,580 | 17,051 |
| Equity holders of the parent | | 104,151 | 794,278 |
| | | 106,731 | 811,329 |

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

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

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

| | Notes | 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) | 280 | 4,241,127 | 5,666,583 | 61,920 | 5,728,503 |
| Total other comprehensive income | | - | - | (4,287) | 95,083 | - | (1,076) | 89,720 | 7,613 | 97,333 |
| Profit for the year | | - | - | - | - | - | 704,558 | 704,558 | 9,438 | 713,996 |
| Total comprehensive income | | - | - | (4,287) | 95,083 | - | 703,482 | 794,278 | 17,051 | 811,329 |
| Purchase of treasury shares | | - | (13,834) | - | - | - | - | (13,834) | - | (13,834) |
| Transfer of depreciation difference | | - | - | - | - | - | - | - | - | - |
| (net of deferred tax) of revaluation effect | | - | - | (1,455) | - | - | 1,455 | - | - | - |
| Share capital increase | 22 | 111,576 | - | - | - | - | (111,576) | - | - | - |
| Dividends paid | | - | - | - | - | - | (239,534) | (239,534) | (2,651) | (242,185) |
| Balance at 31 December 2017 | | 2,556,803 | (25,866) | 176,262 | (1,094,940) | 280 | 4,594,954 | 6,207,493 | 76,320 | 6,283,813 |
| 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 | | - | - | (5,583) | (216,238) | (1,924) | 360 | (223,385) | (3,884) | (227,269) |
| Profit for the year | | - | - | - | - | - | 327,536 | 327,536 | 6,464 | 334,000 |
| Total comprehensive income | | - | - | (5,583) | (216,238) | (1,924) | 327,896 | 104,151 | 2,580 | 106,731 |
| Purchase of treasury shares | | - | (29,859) | - | - | - | - | (29,859) | - | (29,859) |
| Transfer of depreciation difference | | - | - | - | - | - | - | - | - | - |
| (net of deferred tax) of revaluation effect | | - | - | (1,337) | - | - | 1,337 | - | - | - |
| Share capital increase | 22 | 82,535 | - | - | - | - | (82,535) | - | - | - |
| Dividends paid | | - | - | - | - | - | (178,995) | (178,995) | (472) | (179,467) |
| Balance at 31 December 2018 | | 2,639,338 | (55,725) | 169,342 | (1,311,178) | (1,644) | 4,662,657 | 6,102,790 | 78,428 | 6,181,218 |

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

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated.)

| | | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--|-------|------------------------------------|------------------------------------|
| | Notes | | |
| Cash flows from operating activities | | | |
| Profit for the year | | 334,000 | 713,996 |
| Adjustments to reconcile net income | | | |
| to net cash used in operating activities: | | | |
| - Adjustments related to depreciation and amortisation | 5 | 95,114 | 106,137 |
| - Adjustments related to provision for employment | | 1,533 | 2,660 |
| - Adjustments related to allowance for doubtful receivables | 9,26 | 1,694 | 130 |
| - Adjustments related to provision for litigations | | 5,107 | 2,995 |
| - Adjustments related to deferred income from electricity sale | | (136,494) | (158,518) |
| - (Income) / loss from fair value of forward transactions | | (8,519) | 3,741 |
| - Adjustments related to interest expense | 29 | 6,043 | 3,542 |
| - Adjustments related to interest income | | (126,848) | (126,842) |
| - Adjustments related to dividend income | 27 | (11,717) | (9,408) |
| - Adjustments related to provision for inventory impairment, net | | (1,593) | 31,407 |
| - Adjustments related to gain on sale or disposal of property, plant and equipment, net | 14 | (1,257) | (1,007) |
| - Adjustments related to fair value increase in investment properties | | (18,734) | 1,781 |
| - Adjustments related to valuation of investment securities | | 314,763 | (106,992) |
| - Interest accrual | | 316 | 245 |
| - Tax expense | 31 | 128,860 | 161,211 |
| | | <u>582,268</u> | <u>625,078</u> |
| Movements in working capital | | | |
| Change in trade and other receivables | | (199,470) | 93,286 |
| Change cost and estimated earnings in excess of billings on uncompleted contracts | | (33,034) | (9,108) |
| Change in inventory | | (81,715) | 39,719 |
| Change in other current assets and other non current assets | | 59,035 | (100,943) |
| Change in trade and other payables | | 131,833 | (25,542) |
| Change in billings in excess of cost and estimated earnings on uncompleted contracts | | (100,420) | 26,602 |
| Change provision for liabilities and other liabilities | | <u>26,248</u> | <u>(37,740)</u> |
| | | <u>(197,523)</u> | <u>(13,726)</u> |
| Income taxes paid | 31 | (106,754) | (109,816) |
| Employee termination benefits paid | 20 | (2,067) | (3,877) |
| Net cash generated from operating activities | | <u>275,924</u> | <u>497,659</u> |
| Cash flows from investing activities | | | |
| Cash receipts from sales of equity or debt instruments of other entities | | (242,394) | (396,033) |
| Proceeds on disposal or sale of property, plant and equipment | 14 | 22,729 | 11,548 |
| Purchases of property, plant and equipment, intangible assets and investment properties | 5 | (137,294) | (262,356) |
| Interest received | | 115,642 | 119,347 |
| Dividend received | | 11,717 | 9,408 |
| Net cash used in investing activities | | <u>(229,600)</u> | <u>(518,086)</u> |
| Cash flows from financing activities | | | |
| Short-term borrowings | | (18,264) | 11,621 |
| Addition to long-term borrowings | | 25,000 | 41,658 |
| Repayments of borrowings | | (15,214) | (45,094) |
| Purchase of treasury shares | | (29,859) | (13,834) |
| Interest paid | | (5,982) | (2,458) |
| Interest received | | 10,891 | 7,250 |
| Dividend paid to non-controlling interests | | (472) | (2,651) |
| Dividend paid | | <u>(178,995)</u> | <u>(239,534)</u> |
| Net cash used in financing activities | | <u>(212,895)</u> | <u>(243,042)</u> |
| Translation reserve | | 11,565 | 45,167 |
| Net increase / (decrease) in cash and cash equivalents | | <u>(155,006)</u> | <u>(218,302)</u> |
| Cash and cash equivalents at beginning of the year | 6 | 780,718 | 999,020 |
| Cash and cash equivalents at end of the year | 6 | <u>625,712</u> | <u>780,718</u> |

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

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

1. ORGANIZATIONS AND OPERATIONS OF THE GROUP

Enka İnşaat ve Sanayi Anonim Şirketi (“Enka İnşaat”) was established on 4 December 1967 and registered in İstanbul, Turkey, under the Turkish Commercial Code. The address of the head quarter 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 31 December 2018, 11.68% of the shares of Enka İnşaat is traded publicly in İstanbul Stock Exchange (ISE).

As of 31 December 2018, the average numbers of white and blue-collar personnel are respectively 4.558 and 12.043 (31 December 2017 – 4.641 and 15.751).

For the purpose of the consolidated 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, Georgia, Turkmenistan 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 in Africa; Saudi Arabia, Sri Lanka, India, Oman, Iraq, Afganistan in Asia, Mexico in North America and Paraguay in South America.
- iv. *Europe*: engaged in construction and trading activities in Romania, the Netherlands, Switzerland, Germany, Greece and Kosovo.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

1. ORGANIZATIONS AND OPERATIONS OF THE GROUP (cont’d)

As of 31 December 2018, Enka İnşaat has the following subsidiaries whose business and country of incorporation are provided below:

| Name of Subsidiary | Nature of business activities | Country of incorporation | Year of establishment |
|---|---|--------------------------|-----------------------|
| Enka Pazarlama İhracat İthalat Anonim Şirketi (Enka Pazarlama) | Engaged in marketing and after-sales service of construction machineries, trucks, industrial products and spare parts. | Turkey | 1972 |
| Çimtaş Çelik İmalat Montaj ve Tesisat Anonim Şirketi (Çimtaş) | Engaged in manufacturing of structural steel works, installation and establishing of the technical equipment. | Turkey | 1973 |
| Titaş Toprak İnşaat ve Taahhüt Anonim Şirketi (Titaş) | Engaged in all kinds of excavation activities, excavation backfilling works and quarrying-crushing operation of highway projects. | Turkey | 1974 |
| Kasktaş Kayar Kalıp Altyapı Sondaj Kazık ve Tecrit Anonim Şirketi (Kasktaş) | Engaged in pile dwelling work, any kind of base and superstructure construction, slip form and construction of drilling and ground surveys. | Turkey | 1975 |
| Entaş Nakliyat ve Turizm Anonim Şirketi (Entaş) | The firm operates in organization of domestic and international conventions and seminars and also engaged in tour reservations and ticket sales. | Turkey | 1976 |
| Enet Proje Araştırma ve Müşavirlik A.Ş. (Enet) | Performs architectural design services. | Turkey | 1980 |
| Enka Teknik Genel Müteahhitlik Bakım İşletme Sevk ve İdare Anonim Şirketi (Enka Teknik) | Operates in the business of material handling and storage systems, auxiliary facilities, water treatment and environmental engineering, infrastructure and construction, control systems and instrumentation engineering. | Turkey | 1981 |
| Entrade GmbH (Entrade) | Manages foreign investments of the Company. | Germany | 1984 |
| Limited Liability Company Enmar (Enmar) | Engaged in ready-mixed concrete production and various construction works. | Russia | 1994 |
| Airenka Hava Taşımacılığı A.Ş.(Air Enka) | Engaged in all kinds of air transportation. | Turkey | 2001 |
| Enka Holding B.V. | Manages foreign investments of the Company. | Netherlands | 2001 |
| Enka Müteahhitlik Hizmetleri A.Ş. (Enka Müteahhitlik) | Engaged in construction activities. | Turkey | 2002 |
| Adapazarı Elektrik Üretim Limited Şirketi (Adapazarı Elektrik) (*) | Performs production and selling of electricity. | Turkey | 2004 |
| İzmir Elektrik Üretim Limited Şirketi (İzmir Elektrik) (*) | Performs production and selling of electricity. | Turkey | 2004 |
| Enka Santral İşletme ve Bakım Hizmetleri Anonim Şirketi | Performs repair and maintenance of the power plants. | Turkey | 2004 |
| Gebze Elektrik Üretim Limited Şirketi (Gebze Elektrik) (*) | Performs production and selling of electricity. | Turkey | 2004 |
| Enka Limited Liability Company (Enka LLC) | Manages the Company’s construction, engineering and design jobs. | Ukraine | 2006 |
| Enka Enerji Ticaret A.Ş. | Will perform sale of electricity. | Turkey | 2006 |
| Enka & Co LLC | Engaged in construction activities. | Oman | 2010 |

(*) İzmir Elektrik, Adapazarı Elektrik and Gebze Elektrik here and after are also referred to as “the Power Companies”.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

1. ORGANIZATIONS AND OPERATIONS OF THE GROUP (cont’d)

The construction contracts are undertaken by Enka İnşaat alone or together with its affiliated companies or, in partnerships with other contractors through joint operations. As of 31 December 2018, Enka İnşaat has the following joint operations:

Bechtel-Enka Joint Venture (Kazakhstan) – Senimdy Kurylys
Bechtel-Enka Joint Venture (Romania)
Bechtel-Enka Joint Venture (Kosovo)
Bechtel-Enka Joint Venture (Albania)
Bechtel-Enka Joint Venture (Oman)
Bechtel-Enka Joint Venture (Georgia)
Other (Europe, Africa, America, Asia)

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation

Basis for preparation of the financial statements and significant accounting policies

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The consolidated financial statements have been prepared on the historical cost convention, except for investment properties, buildings, financial assets at fair value through profit or loss and derivative financial instruments which are measured at fair values. The consolidated financial statements are presented in U.S. Dollars (“USD”) and all values are rounded to the nearest thousand (‘000) except when otherwise indicated.

The Group adopted all standards, which were mandatory as of 31 December 2018. The consolidated financial statements of Enka İnşaat were authorized for issue by the management on 5 March 2019. The General Assembly and certain regulatory bodies have the power to amend the financial statements after issue.

Enka İnşaat and its subsidiaries which are incorporated in Turkey, maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (“TL”) in accordance with Turkish Accounting Standards (“TAS”) issued by Public Oversight Accounting and Auditing Standards Authority of Turkey (“POA”) as set out in the Communiqué serial II, No: 14.1 announcement of Capital Markets Board (“CMB”) dated 13 June 2013 related to “Capital Market Communiqué on Principles Regarding Financial Reporting”. The foreign subsidiaries maintain their books of accounts in accordance with the laws and regulations in force in the countries where they are registered. The consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

The Group also reported separately for the consolidated financial statements for the same period prepared in accordance with TAS.

There are no differences between the consolidated financial statements prepared in accordance with TAS and consolidated IFRS financial statements except for the use of TL as the presentation currency in accordance with IAS 21 “the effects of changes in foreign exchange rates”.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

2.1 Basis of presentation (cont’d)

Functional and presentation currency

As significant amount of construction, energy and real estate operations of Enka İnşaat and its consolidated subsidiaries and its joint operations which form main part of the operations of the Group are carried out in U.S. Dollar or indexed to U.S. Dollar, this currency has been determined as the functional and the presentation currency of the Group in line with IAS 21. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies (i.e. any currency other than the functional currency) are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of foreign subsidiaries operating in Russia (Moscow Krasnye Holmy (MKH), Limited Liability Company Mosenka (Mosenka) and Limited Liability Company Enka TC (Enka TC)) are Ruble. The functional currency of jointly managed subsidiaries established in Romania, Kosovo and Albania and Enka Pazarlama are the Euro. The functional currency of some subsidiaries incorporated in Turkey is TL. These companies reporting to Enka İnşaat in the currency of their respective currencies.

The assets and liabilities of the subsidiaries whose functional currency is other than U.S. Dollars are translated into U.S. Dollars at the rate of exchange ruling at the balance sheet date and their consolidated statement of profit or loss are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity as currency translation difference.

Within Turkey, official exchange rates of the Turkish Lira (TL) are determined by the Central Bank of Turkey (CBT) and are generally considered to be a reasonable approximation of market rates. Within the Russian Federation, official exchange rates are determined daily by the Central Bank of the Russian Federation (CBRF), which is also a reasonable approximation of market rates.

The year-end and average rates for 2018 and 2017 for one U.S. Dollar can be summarized as below:

| | 2018 | 2017 |
|---|---------|---------|
| U.S. Dollars/TL – as of balance sheet date | 5.2609 | 3.7719 |
| U.S. Dollars/TL – yearly average | 4.8301 | 3.6445 |
| U.S. Dollars/RUB – as of balance sheet date | 69.4706 | 57.6002 |
| U.S. Dollars/RUB – yearly average | 62.7078 | 58.3529 |

Inflation accounting

With the decision taken on 17 March 2005, the CMB announced that, effective from 1 January 2005, the application of inflation accounting is no longer required for companies operating in Turkey and preparing their consolidated financial statements in accordance with the financial reporting standards accepted by the CMB (“CMB Financial Reporting Standards”). Accordingly, TAS 29, “Financial Reporting in Hyperinflationary Economies”, issued by the POA, has not been applied in the consolidated financial statements for the accounting year commencing 1 January 2005. Accordingly, the non-monetary assets and liabilities and equity items included in the balance sheet of the Company for the year ended 31 December 2018 and 2017 have been calculated by indexing the entries until 31 December 2004 until 31 December 2004 and the entries after these dates are carried at nominal values.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

2.1 Basis of presentation (cont’d)

Comparative information and reclassification of prior year consolidated financial statements

The Group prepares comparative consolidated 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, there is no such reclassification.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company, its joint operations and its subsidiaries as at 31 December each year. The financial statements of the joint operations and the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies so as to benefit from its activities. Subsidiaries in which the Group owns directly or indirectly more than 50% of the voting rights, or has power to govern the financial and operating policies under a statute or agreement are consolidated. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. All significant intra-group transactions and balances between Enka İnşaat and its consolidated subsidiaries and joint operations are eliminated.

Non-controlling interests represent the portion of consolidated statement of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of profit or loss and within equity in the consolidated balance sheet, separately from parent shareholders’ equity.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

2.1 Basis of presentation (cont'd)

Basis of consolidation (cont'd)

The subsidiaries included in consolidation and their shareholding percentages at 31 December 2018 and 2017 are as follows:

| Company name | Segment | Functional Currency | Direct / Indirect ownership | |
|--|-------------------------|------------------------|-----------------------------|---------------------|
| | | | 31 December 2018 | 31 December 2017 |
| İzmir Elektrik | Energy | USD | 100.00% | 100.00% |
| Adapazarı Elektrik | Energy | USD | 100.00% | 100.00% |
| Gebze Elektrik | Energy | USD | 100.00% | 100.00% |
| Enka TC LLC | Trade and manufacturing | RUB | 100.00% | 100.00% |
| Mosenka | Rental | RUB | 100.00% | 100.00% |
| MKH | Rental | RUB | 100.00% | 100.00% |
| OMKH | Rental | RUB | 100.00% | - |
| Enka Santral Hizmetleri A.Ş. | Energy | USD | 100.00% | 100.00% |
| Enka Enerji Ticaret A.Ş. | Energy | USD | 100.00% | 100.00% |
| Enka Holding B.V. | Construction | EUR | 100.00% | 100.00% |
| Enka Holding Investment S.A. | Construction | USD | 100.00% | 100.00% |
| Enka Power Systems B.V. | Construction | EUR | 100.00% | 100.00% |
| Enka Construction & Development B.V. | Construction | EUR | 100.00% | 100.00% |
| Far East Development B.V. | Construction | EUR | 100.00% | 100.00% |
| Enka Geothermal B.V.Middle East Construction B.V | Construction | EUR | 100.00% | 100.00% |
| Enmar | Construction | USD | 100.00% | 100.00% |
| Entrade | Construction | EUR | 100.00% | 100.00% |
| Capital City Investment B.V. | Construction | EUR | 100.00% | 100.00% |
| City Center Investment B.V. | Rental | USD | 100.00% | 100.00% |
| Enka LLC | Construction | USD | 100.00% | 100.00% |
| Retmos Investment Ltd. | Construction | USD | 100.00% | 100.00% |
| Emos LLC | Trade and manufacturing | RUB | 100.00% | 100.00% |
| Enmar Construction B.V. | Trade and manufacturing | EUR | 100.00% | 100.00% |
| Cmos B.V. | Trade and manufacturing | EUR | 100.00% | 100.00% |
| OOO Victoria | Construction | USD | 100.00% | 100.00% |
| Enka & Co LLC | Construction | USD | 100.00% | 100.00% |
| Enka Müteahhitlik | Construction | TL | 100.00% | 100.00% |
| Edco Investment B.V. | Rental | EUR | 100.00% | 100.00% |
| Enru Development B.V. | Rental | EUR | 100.00% | 100.00% |
| Enkamos Region B.V. | Construction | EUR | 100.00% | 100.00% |
| Airenka | Trade and manufacturing | USD | 100.00% | 100.00% |
| Poyraz Shipping B.V. | Construction | USD | 100.00% | 100.00% |
| Bogazici Shipping B.V. | Construction | USD | 100.00% | 100.00% |
| Doga Shipping B.V. | Construction | USD | 100.00% | 100.00% |
| Imbat Shipping B.V. | Construction | USD | 100.00% | 100.00% |
| TNY Shipping B.V. | Construction | USD | 100.00% | 100.00% |
| Alacante Shipping B.V. | Construction | USD | 100.00% | 100.00% |
| BRK Overseas Shipping B.V. | Construction | USD | 100.00% | 100.00% |
| MML Merchant Shipping B.V. | Construction | USD | 100.00% | 100.00% |
| Esta Construction B.V. | Construction | USD | 100.00% | 100.00% |
| Enka UK Construction Ltd. | Construction | USD | 100.00% | 100.00% |

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

2.1 Basis of presentation (cont’d)

Basis of consolidation (cont’d)

| Company name (continuing) | Segment | Functional Currency | Direct / Indirect ownership | |
|---|-------------------------|------------------------|-----------------------------|---------------------|
| | | | 31 December 2018 | 31 December 2017 |
| Enet | Construction | TL | 100.00% | 100.00% |
| Üstyurt Kurylys | Construction | USD | 100.00% | 100.00% |
| Enka Pazarlama | Trade and manufacturing | EUR | 99.99% | 99.99% |
| Enka Trading B.V. | Trade and manufacturing | EUR | 99.99% | 99.99% |
| Metra Akdeniz Dış Ticaret A.Ş. | Trade and manufacturing | EUR | 99.99% | 99.99% |
| Entaş | Trade and manufacturing | TL | 99.98% | 99.98% |
| Kasktaş | Construction | USD | 99.90% | 99.90% |
| Burkas Ltd. Şti. | Construction | USD | 99.90% | 99.90% |
| Kasktaş Arabia Ltd. | Construction | USD | 99.90% | 99.90% |
| Titaş | Construction | USD | 99.50% | 99.50% |
| Çimtaş Gemi İnşa Sanayi ve Ticaret A.Ş. | Construction | USD | 97.88% | 97.88% |
| Çimtaş Hassas İşleme Sanayi ve Ltd.Şti | Construction | USD | 97.35% | 97.35% |
| Çimtaş Çelik | Construction | USD | 97.35% | 97.35% |
| Cimtas Mechanical Contracting B.V. | Construction | USD | 97.35% | 97.35% |
| Cimtas (Ningbo) Steel Processing Company Ltd. | Construction | USD | 97.35% | 97.35% |
| Cimtas Investment B.V. | Construction | EUR | 97.35% | 97.35% |
| Gemlik Deniz Taşımacılık Ltd.Şti. | Construction | USD | 97.35% | 97.35% |
| Enka Teknik | Construction | USD | 80.00% | 77.50% |
| Enka Systems | Trade and manufacturing | USD | 75.00% | 75.00% |
| Cimtas Boru İmalatları ve Ticaret Ltd. Şti. | Construction | EUR | 50.00% | 50.00% |
| OOO R-Avtam | Rental | USD | - | 100.00% |
| Enka Finansal Kiralama A.Ş. | Trade and manufacturing | TL | - | 99.99% |

The Group has interests in joint operations which are jointly controlled entities. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Group recognizes its interest in the joint operations using proportionate consolidation. The breakdown of the controlling interests of the joint operations as of 31 December 2018 and 2017 is as follows:

| | Functional Currency | 31 December 2018 | 31 December 2017 |
|---|------------------------|------------------|------------------|
| Bechtel-Enka Joint Venture (Kazakhstan) – Senimdy Kurylys | USD | 50.00% | 50.00% |
| Bechtel-Enka Joint Venture (Romania) | EUR | 50.00% | 50.00% |
| Bechtel-Enka Joint Venture (Albania) | EUR | 50.00% | 50.00% |
| Bechtel-Enka Joint Venture (Kosovo) | EUR | 50.00% | 50.00% |
| Bechtel-Enka Joint Venture (Oman) | USD | 50.00% | 50.00% |
| Bechtel-Enka Joint Venture (Georgia) | USD | 50.00% | 50.00% |
| Other Partnerships (Europe, Africa, America, Asia) | USD | 50.00% | 50.00% |

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

2.2 Changes in the accounting policies

With the exception of followings, the accounting policies applied in the consolidated financial statements as at and for the year ended 31 December 2018 are the same as those applied in the Group’s consolidated financial statements as at and for the year ended 31 December 2017.

a) IFRS 15 Revenue from contracts with customers

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

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.

b) IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The details of IFRS 9 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 and measures and financial assets 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.

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.

Impact of the IFRS 9

Since the Group had adopted IFRS 9 (2009) in 2010, IFRS 9 (2017) does not have an impact on the Group’s financial statement in terms of classification and measurement. IFRS 9 (2017) 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.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

2.3 Changes in Accounting Estimates and Errors

Changes in accounting policies or accounting errors are applied retrospectively and the consolidated financial statements of the previous periods are restated. If estimated changes in accounting policies are for only one period, changes are applied on the current year but if the estimated changes effect the following periods, changes are applied both on the current and following years prospectively. There is no material change in accounting estimates of the Group in the current year.

When a significant accounting error is identified, it is corrected retrospectively and the prior year consolidated financial statements are restated. The Group did not detect any significant accounting error in the current year.

2.4 Standards and interpretations issued but not yet effective

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 consolidated has not early adopted are as follows.

IFRS 16 Leases

On 13 January 2016, IASB issued the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 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. IFRS 16 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 17 June 2017, IASB issued IFRIC 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. IFRIC 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. IFRIC 23 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 IFRIC 23.

Amendments to IFRS 9 - Prepayment features with negative compensation

On December 2017, IASB 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.

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

On December 2017, IASB 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 THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.4 Standards and interpretations issued but not yet effective (cont’d)

Standards issued but not yet effective and not early adopted (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.

Annual Improvements to IFRSs 2015-2017 Cycle

Improvements to IFRSs

IASB issued Annual Improvements to IFRSs - 2015–2017 Cycle for applicable standards. 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.

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

2.4 Standards and interpretations issued but not yet effective (cont’d)

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 does not expect that application of these amendments to IAS 19 will have significant impact on its consolidated financial statements.

IFRS 17 Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly globally accepted standard for insurance contracts will help investors and others better understand insurers’ risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier.

Amendments to IAS 1 and IAS 8 - Definition of Material

In October 2018 the IASB issued Definition of Material (Amendments to IAS 1 and IAS 8). The amendments clarify and align the definition of ‘material’ and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Group does not expect that application of these amendments to IAS 1 and IAS 8 will have significant impact on its consolidated financial statements.

Amendments to IFRS 3 - Definition of a Business

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. The IASB has issued amendments to IFRS 3 Business Combinations that seek to clarify this matter. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. The Group does not expect that application of these amendments to IFRS 3 will have impact on its consolidated financial statements

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

2.5 Summary of significant accounting policies

Revenue

In accordance with IFRS 15, a five-stage approach is followed in recognizing revenue for all contracts with customers.

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as the entity satisfies a performance obligation

The Group evaluates the goods or services it undertakes in each contract with the customers and determines each commitment to transfer the said goods or services as a separate performance obligation. It is determined in the beginning of the contract whether the performance obligation will be carried out over a period of time or it will be performed at a certain time for each performance obligation. Group recognizes the revenue over a period of time by measuring the progress attributed to complete fulfillment of performance obligation in question on the occasion that the Group transfers the control of a good or a service and therefore it fulfills the performance obligation related to these sales over time.

The accounting for the revenue of the Group's different activities is explained below:

Construction contract activities

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs.

Revenue arising from cost plus fee contracts is recognized on the basis of costs incurred plus a percentage of the contract fee earned during the year.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Selling, general and administrative expenses are charged to the consolidated statement of profit or loss as incurred. Provisions for estimated losses on uncompleted contracts are made in full, in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Profit incentives are included in revenues when their realization is reasonably assured.

Costs and estimated earnings in excess of billings on uncompleted contracts represent revenues recognized in excess of amounts billed. Billings in excess of costs and estimated earnings on uncompleted contracts represent billings in excess of revenues recognized.

Energy activities

The Power Companies have signed an “Electric Sales Agreement” (ESA) with Türkiye Elektrik Ticaret ve Taahhüt A.Ş. (TETAŞ) for the establishment, management and sale of electricity that will be produced for a period of 20 years in accordance with the Build-Own-Operate Law numbered 4283 and Build-Own-Operate regulation. As the period includes project development and construction phases, the contract dates of power plants are 16 years after the beginning of the operation. The sales price and quantity in terms of Kwh during the 16 years period are determined in the ESA. Average energy sales price is determined by dividing yearly sales revenues calculated over yearly sales amounts and unit prices by the 16 year-sales quantities. At the end of each year, the average price is recalculated over the realized amounts. Therefore, revenues from the sale of electricity under long-term contracts are recognized on the average charge per Kwh over the life of the contract. Both the ‘investment’ and the ‘fuel cost’ item revenues in the scope of the contract are levelised accordingly. Revenues in excess of the average are recorded as deferred revenue in the consolidated balance sheet and are recognized over the life of the project.

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

2.5 Summary of significant accounting policies (cont’d)

Revenue (cont’d)

Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group 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 entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is reduced for estimated or realized customer returns, discount commissions, rebates and taxes related to sales.

Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases. Rental income collected in advance is treated as deferred income and is amortised on a monthly basis during the lease period.

Rendering of services

Revenue is recognized by reference to the stage of completion.

Interest income

Interest income and expenses are recognized in the consolidated statement of profit or loss on an accrual basis taking into account the effective yield on the asset. When loans provided by the Group are considered doubtful by the management of the Group, the interest accrual is not recognized in the consolidated statement of profit or loss.

Dividends

Revenue is recognized when the Group’s right to receive the payment is established.

Inventories

Inventories are valued at the lower of cost or net realizable value. Costs incurred in bringing each product to its present location and condition, are included in the cost. Raw materials, spare parts, merchandise and construction materials - purchase cost on moving weighted average basis.

The Group also provides an allowance for the slow moving and obsolete items.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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

2.5 Summary of significant accounting policies (cont'd)

Property, plant and equipment

With the exception of land and buildings, items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment in value. Land is not depreciated. The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Land and buildings are carried at revalued amounts. Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Repairs and maintenance are charged to the consolidated statements of profit or loss during the financial period in which they are incurred. The costs of major renovations are included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group.

Depreciation is provided on all property, plant and equipment using the straight-line method at rates which approximate estimated useful lives of the related assets as follows:

| | Useful life |
|-------------------------------------|-------------|
| Land improvements | 5-50 years |
| Buildings | 10-50 years |
| Power plant equipment | 35 years |
| Pipelines | 16 years |
| Electrical interconnection lines | 16 years |
| Machinery and equipment | 4-10 years |
| Motor vehicles | 3-10 years |
| Furniture and fixtures | 5-10 years |
| Barracks, scaffolding and formworks | 5 years |
| Aircrafts | 10-15 years |
| Others | 5-10 years |

Power plant equipment is recorded at its original cost of construction. Significant additions or improvements are capitalized when they extend the life, improve the efficiency or increase the earnings capacity of the asset. Expenditures for maintenance, repairs and minor renewals to maintain facilities in operating condition are expensed as incurred.

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

Intangible assets (except goodwill)

Intangible assets mainly includes software rights, they are initially recognized at acquisition cost that are amortized over 3 to 10 years on straight-line basis.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

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

2.5 Summary of significant accounting policies (cont’d)

Investment properties

Land and buildings that are held in the production of supply of goods or services or for administrative purposes or for long term rental yields or for capital appreciation or both rather than for the sale in the ordinary course of business are classified as “investment property”. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of profit or loss in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of profit or loss in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Investment property also includes long-term leasehold land held under an operating lease, which is accounted for as a finance lease in accordance with IAS 40 “Investment Property” and IAS 17 “Leases”. Each lease payment on the long-term leasehold land is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current lease liability on leasehold land. The interest element of the finance cost is charged to consolidated statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Business combinations

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in the consolidated statement of profit or loss as a bargain purchase gain.

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

2.5 Summary of significant accounting policies (cont’d)

Business combinations (cont’d)

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. If the contingent consideration classified as an asset or liability is a financial instrument and is in the scope of IFRS 9 Financial Instruments standard, the contingent consideration is measured at fair value and the gain or loss arising from the change is recognized in profit or loss or other comprehensive income. Those not included in IFRS 9 are accounted for in accordance with IAS 37 Provisions or other appropriate IFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquire prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Business combinations that took place prior to 1 January 2010 were accounted for in accordance with the previous version of IFRS 3.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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

2.5 Summary of significant accounting policies (cont’d)

Non-current assets held for sale

The Group measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell, and depreciation on such assets are ceased.

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Discontinued operations

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and: represents a separate major line of business or geographical area of operations; is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations. The Group measured assets and liabilities related to the disposal group at the lower of their previous carrying amount and fair value less costs to sell.

Impairment of non-financial assets

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

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

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

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

2.5 Summary of significant accounting policies (cont'd)

Impairment of non-financial assets (cont'd)

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in the consolidated statement of profit or loss in the period in which they are incurred.

Financial Instruments

Recognition and measurement

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

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

Classification and subsequent measurement

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

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

A financial asset is measured at amortised 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.

The Group may irrevocably make preference about presentation of subsequent changes in its fair value in other comprehensive income on initial recognition of non-trading equity investment. This is made separately for each investment.

All financial assets not classified as measured at amortised 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.

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

2.5 Summary of significant accounting policies (cont’d)

Financial Instruments (cont’d)

Financial Instruments: Business model assessment

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

Financial assets that are managed on the basis of fair value and whose performance is assessed accordingly are measured at fair value through profit or loss.

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

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

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

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

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

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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

2.5 Summary of significant accounting policies (cont’d)

Financial Instruments (cont’d)

Financial assets – subsequent measurement and gains and losses

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. |

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The Group’s cash and cash equivalents are classified under the category of ‘Loans and Receivables’.

Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

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

a) Financial liabilities at fair value through profit and loss

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL 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.

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

2.5 Summary of significant accounting policies (cont’d)

Financial Instruments (cont’d)

Financial liabilities (cont’d)

b) 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, with interest expense recognized on an effective yield basis.

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

Derivative financial instruments and hedging

Derivative financial instruments are initially recognized at fair value and are subsequently remeasured at their fair value. Derivative financial instruments of the Group predominantly constitute forward foreign currency purchase and sale contracts.

The fair value of forward foreign exchange contracts measured at fair value and associated with the consolidated profit or loss is calculated by reference to the market interest rates valid for the rest of the contract for the relevant currency for the relevant period, by comparison with exchange rate. Derivatives are recorded as assets or liabilities in the balance sheet, respectively, depending on whether the fair value is positive or negative differences arising from the fair value of derivative financial instruments except for the cash flow hedge explained below are reflected in the profit and loss statement in the consolidated statements of income.

Cash flow hedge

The Group performs cross currency transactions with participation option to hedge the cash flow risk of variable and fixed rate financial instruments and liabilities in different currencies. The effective portion of the fair value change of the hedging instrument in the cash flow hedge accounting is recognized in “other comprehensive income”, while the ineffective portion is recognized in the in profit or loss. In the periods in which the cash flows of the hedged item affect the profit or loss, the profit or loss of the hedging instrument is also removed from equity and reflected to the income statement. In addition, the time value change in the options included in the structured cross-currency swaps is recognized in other comprehensive income as the hedging cost.

According to IFRS 9, the hedging relationship ends when the required criteria are no longer met after rebalancing. The termination of the hedging relationship is not accepted if the required criteria are met. In the event that the hedging target changes, the hedging instrument expires or is sold, terminated or used, the hedging accounting ends when the economic relationship between the hedging instrument and the hedged item is eliminated or the credit risk affects the fair value changes arising from the economic relationship.

When the Group discontinued hedge accounting for cash flow variability, the amount accumulated in the cash flow hedge fund is recognized as follows;

- The profit or loss recognized in other comprehensive income and presented in the hedging reserve under equity remains there until the cash flows of the hedged item realised.
- When the cash flows from the hedged item is expected not to be realised, the gain or loss accumulated under equity is recognized immediately in profit or loss.

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

2.5 Summary of significant accounting policies (cont’d)

Financial Instruments (cont’d)

Accounting at the date of transaction

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Derecognition

Financial assets

The Group derecognized a financial asset when the contractual rights to the cash flows from the asset expired, or it transferred the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset were transferred. Any interest in such transferred financial assets that was created or retained by the Group was recognized as a separate asset or liability.

The Group continues to recognize the financial asset in the statement of financial position if it retains substantially all the risks and benefits arising from the ownership of a financial asset.

Financial liabilities

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

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

Impairment of financial assets

Financial assets and contract assets

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

- financial assets measured at amortized cost;
- contract assets (as defined in IFRS 15).

Under IFRS 9, loss allowances are measured on either of the following bases:

Financial assets measured at amortized cost;

- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument; and

Bank balances for which credit risk has not increased significantly since initial recognition;

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date.

The Group has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, 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.

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

2.5 Summary of significant accounting policies (cont’d)

Financial Instruments (cont’d)

Impairment of financial assets (cont’d)

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of “investment grade”.

The maximum time to be measured by the ECLs is the maximum contractual period that the Group is exposed to credit risk.

Measurement of ECLs

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

For trade receivables, other receivables, other assets and contract assets the Group applies the simplified approach to providing for expected credit losses (IFRS 9 requires the use of the lifetime expected loss provision for all trade receivables). 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 Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI 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

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

For debt securities at FVOCI, the loss allowance is recognized in OCI, instead of reducing the carrying amount of the asset.

Trade receivables

The following analysis provides further detail about the calculation of ECLs related to trade receivables and contract assets on the adoption of IFRS 9. The Company considers the model and some of the assumptions used in calculating these ECLs as key sources of estimation uncertainty.

The Group has calculated the ECLs according to the experience of credit losses in the last three years. The Group performed the calculation of ECL separately for each customers of receivables at the reporting date. Exposures within each group were segmented based on common credit risk characteristics such as credit risk grade, delinquency status, geographic region, age of relationship.

Effect of changes in foreign exchange rates

Transactions in currencies other than functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign currency indexed monetary assets and liabilities are recorded at the rates of exchange prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Nonmonetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in the consolidated statement of profit or loss in the period in which they arise.

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

2.5 Summary of significant accounting policies (cont'd)

Earnings per share

Basic earnings per share (EPS) disclosed in the consolidated statement of profit or loss are determined by dividing net profit by the weighted average number of shares that have been outstanding during the related year concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (Bonus Shares) to existing shareholders without a consideration for amounts resolved to be transferred to share capital from retained earnings. For the purpose of the EPS calculation, such bonus share distributions are regarded as stock dividends. If the number of ordinary shares outstanding increases as a result of a capitalization, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic EPS for all periods presented is adjusted retrospectively. If these changes occur after the balance sheet date but before the financial statements are authorized for issue, the EPS calculations for those and any prior period financial statements presented is based on the new number of shares.

Provisions, contingent liabilities, contingent assets

Provisions

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingent liabilities and assets

If contingent liabilities does not carry a high probability of resource allocation (cash outflow), they are not recognized in the consolidated financial statements but disclosed in the footnotes. However, contingent assets are not recognized in consolidated financial statements but disclosed in the footnotes when an inflow of economic benefits is probable.

Leases - The Group as lessee

Finance leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against consolidated statement of profit or loss. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonably certainty that the Group will obtain ownership by the end of the lease term, capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease

Leases of assets under which substantially all the risks and rewards of ownership are effectively retained by the lessor, are classified as operating leases, except long-term leasehold land classified as investment property. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognized as a reduction of rental expense over the lease term on a straight-line basis.

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

2.5 Summary of significant accounting policies (cont'd)

Leases - The Group as lessor

Operating lease

Lease income from operating leases is recognized in consolidated statement of profit or loss on a straight-line basis over the lease term. Costs, including depreciation, incurred in earning the lease income are recognized as an expense. Initial direct costs incurred by the Group in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

Related parties

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

a) An individual or a close family member is considered related party of the reporting entity when the following criteria are met: If a certain individual,

- i) Has control or joint control over the reporting entity,
- ii) Has significant influence over the reporting entity,
- iii) Is a key management personnel of the reporting entity or a parent company of the reporting entity.

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

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

Related party transaction is the transfer of resources, services or liabilities regardless of whether a price is charged or not.

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

2.5 Summary of significant accounting policies (cont’d)

Income tax

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the balance sheet date. Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of profit or loss.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that, in the management’s judgment, it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet dates.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority. Deferred tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of profit or loss.

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

2.5 Summary of significant accounting policies (cont’d)

Employee termination benefits

The Group has both defined benefit and defined contribution plans as described below:

Defined benefit plans

In accordance with existing social legislation in Turkey, the Company and its subsidiaries in Turkey are required to make lump-sum termination indemnities to each employee who has completed one year of service and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

These benefits are unfunded. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. All actuarial gains and losses are recognized in the consolidated statement of other comprehensive income.

Personnel working in branches operating in foreign countries and joint-operations do not have any employee termination benefit as there is no legal obligation in these countries.

Defined contribution plans

The Company and its subsidiaries in Turkey pay contributions to publicly administered Social Security Fund on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Foreign subsidiaries and joint operations contribute to the related government body for the pension scheme of its employees in the country they are domiciled. Mandatory contributions to the governmental pension scheme are expensed when incurred.

Statement of cash flows

Cash flows are classified according to operating, investment and finance activities in the consolidated statement of cash flows.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, excluding short term deposits with an original maturity of more than three months and deposits blocked in bank accounts as collateral.

Events after the reporting period

Events after the reporting period, also known as ‘subsequent events’ include any favorable or unfavorable event that took place between the balance sheet date and the publication date of the balance sheet, despite any possible event that might arise after the publicization of any information regarding profits or other financial figures.

The Group adjusts its consolidated financial statements if such adjusting subsequent events arise.

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

2.6 Significant accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that are reflected in the measurement of income and expense in the consolidated statement of profit or loss and in the carrying value of assets and liabilities in the consolidated balance sheet, and in the disclosure of information in the notes to the consolidated financial statements. Managements do exercise judgment and make use of information available at the date of the preparation of the consolidated financial statements in making these estimates. The actual future results from operations in respect of the areas where these judgments and estimates have been made may in reality be different than those estimates.

The key assumptions concerning the future and other key resources of estimation at the consolidated balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year and the significant judgments (apart from those involving estimations) with the most significant effect on amounts recognized in the consolidated financial statements are as follows:

- a) Determination of total estimated project costs, profitability and calculation of loss accruals under the scope of IAS 11 “Construction Contracts” (Note 12).
- b) Fair value of investment properties under the scope of IAS 40 “Investment Property” and land and buildings under the scope of IAS 16 “Property, Plant and Equipment” (Note 13 and 14).
- c) Estimation of impairment losses on financial assets and trade receivables (Note 7 and 9).
- d) Significant management judgement is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and the level of future taxable profits together with future tax planning strategies (Note 31).
- e) The Group management has made significant assumptions for determining the economic lives of tangible and intangible assets with the guidance of experienced technical staff (Note 14, 15).
- f) Estimates and assumptions are used in goodwill impairment test (Note 16).
- g) In accordance with the accounting policies referred to in Note 2.5, provisions are based on the assumption that the Group has a legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and the amount to be paid can be reliably estimated. The Group is subject to various legal processes, requests and regulatory negotiations whose results are uncertain. The Group assesses the likelihood of adverse consequences as well as other factors, and the possibility of reasonably estimating losses. Unforeseeable events and changes in these factors may require an increase or decrease in the provisions that the Group accounts for (whether it is considered unlikely or has not recorded a provision due to inability of a reliable estimation).

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3. DIVIDENDS

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, 0.12 full TL gross / 0.109 full TL 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 349,000 from TL 901,000 has been distributed as an advance dividend on 27 September 2017 and 13 December 2017, and the remaning amount net in total TL 552,000 is distributed on 17 April 2018.

In 2018 and 2017, the Group distributed dividends as detailed below:

| | 2018 | | 2017 | |
|---|----------------------------|------------------------|----------------------------|------------------------|
| | Dividend (TL Thousands) | Dividends per share | Dividend (TL Thousands) | Dividends per share |
| Ordinary share owners (1 Full TL nominal value) (*) | 549,240 | 0.12 Full TL | 504,000 | 0.12 Full TL |
| Founder share owners | 32,348 | 32.34 TL | 29,352 | 29.35 TL |
| Ordinary share owners (1 Full TL nominal value) (*) (**) | 198,000 | | 165,000 | 0.03 Full TL |
| Ordinary share owners (1 Full TL nominal value) | | | 184,000 | 0.03 Full TL |
| | <u>779,588 TL</u> | | <u>882,352 TL</u> | |

(*)The amount of dividends distributed to the shares bought back by the Company has been deducted.

(**) Based on the power vested in the Board of Directors of Enka İnsaat by the General Assembly in its ordinary Meeting held on 28 March 2018; regarding to the distribution of the period between 1 January – 30 September 2018 profit, it is resolved to distribute, as of the date of 14 December 2018 a total TL 200,000 from the amount that remains after deduction of the reserves as required, pursuant to the provisions of the Turkish Code of Commerce and the Articles of Association, dividend advances at a rate of 4.00% gross and 3.40% net per share.

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4. INTEREST IN JOINT OPERATIONS

The Group's share in the assets and liabilities and the profit/loss of the of the joint operations using the proportionate consolidation method on a line by line basis is as follows:

| | 31 December 2018 | 31 December 2017 |
|--|---------------------|---------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | 98,209 | 170,316 |
| Trade receivables | 102,603 | 58,951 |
| Other receivables | 294 | 43 |
| Inventories | 3,999 | 4,468 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 6,754 | 7,713 |
| Other current assets | 11,984 | 13,126 |
| Group's share in current assets of joint operations | 223,843 | 254,617 |
| Non-Current Assets | | |
| Cost | 67,826 | 73,775 |
| Accumulated depreciation | (41,085) | (46,469) |
| Group's share in joint operations in property, plant and equipment | 26,741 | 27,306 |
| Other non-current assets | - | 8,086 |
| Group's share in non-current assets of joint operations | - | 8,086 |
| LIABILITIES | | |
| Current Liabilities | | |
| Trade payables | 29,724 | 21,829 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 138,965 | 187,053 |
| Provisions | 5,803 | 5,264 |
| Provisions for employee benefits | 5,943 | 6,422 |
| Other current liabilities | 3,744 | 9,080 |
| Group's share in current liabilities of joint operations | 184,179 | 229,648 |
| Non-Current Liabilities | | |
| Other non-current liabilities | - | 1,250 |
| Group's share in non-current liabilities of joint operations | - | 1,250 |

The Group's share in the consolidated statement of profit or loss of the joint operations using the proportionate consolidation method on a line by line basis is as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--------------------------|---------------------------------|---------------------------------|
| Revenue | 490,613 | 410,603 |
| Cost of revenue | (362,195) | (301,889) |
| Other operating expenses | (42) | (2,502) |
| Financial income | 323 | 220 |
| Financial expenses | (4,512) | (55) |
| Taxation charge | (2,857) | (4,672) |
| Net profit | 121,330 | 101,705 |

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

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5. 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 - 31 December 2018 | | | | | |
|--|------------------------------|------------------|----------------|------------------|------------------|----------------|
| | Construction contracts | Rental | Trade | Energy | Eliminations | Consolidated |
| Revenues | 939,156 | 328,438 | 157,331 | 1,456,518 | - | 2,881,443 |
| Inter-segment revenues | 71,354 | 533 | 7,889 | 17,049 | (96,825) | - |
| Cost of revenues (-) | (727,457) | (112,024) | (126,316) | (1,186,969) | - | (2,152,766) |
| Inter-segment cost of revenues (-) | (71,354) | - | (7,889) | (17,049) | 96,292 | - |
| Gross profit | 211,699 | 216,947 | 31,015 | 269,549 | (533) | 728,677 |
| Administrative expenses (-) | (60,561) | (14,510) | (7,486) | (8,337) | 633 | (90,261) |
| Marketing, selling and distribution expenses (-) | (10,286) | (4,974) | (7,666) | - | - | (22,926) |
| Other operating income | 57,121 | 5,704 | 2,890 | 11,416 | - | 77,131 |
| Other operating expenses (-) | (26,150) | (1,359) | (3,433) | (268) | - | (31,210) |
| Profit from operations | 171,823 | 201,808 | 15,320 | 272,360 | 100 | 661,411 |
| Investment income | 162,611 | 40,536 | - | 13 | - | 203,160 |
| Investment expenses (-) | (361,425) | (20,508) | - | (22,060) | - | (403,993) |
| Profit from operations Before financial income/(expenses) | (26,991) | 221,836 | 15,320 | 250,313 | 100 | 460,578 |
| Financial income | 26,369 | 2,057 | 12,878 | 15,224 | (2,263) | 54,265 |
| Financial expenses (-) | (28,639) | (13,300) | (3,296) | (9,009) | 2,261 | (51,983) |
| Profit before tax | (29,261) | 210,593 | 24,902 | 256,528 | 98 | 462,860 |
| Current tax expense (-) | (22,598) | (30,837) | (3,526) | (42,731) | - | (99,692) |
| Deferred tax expense (-) | 4,608 | (10,876) | (984) | (21,916) | - | (29,168) |
| Profit for the year from continuing operations | (47,251) | 168,880 | 20,392 | 191,881 | 98 | 334,000 |
| | 31 December 2018 | | | | | |
| | Construction contracts | Rental | Trade | Energy | Consolidated | |
| Segment assets | 4,154,590 | 2,014,801 | 242,280 | 1,384,610 | 7,796,281 | |
| Total assets | 4,154,590 | 2,014,801 | 242,280 | 1,384,610 | 7,796,281 | |
| Segment liabilities | 613,938 | 369,409 | 110,999 | 520,717 | 1,615,063 | |
| Total liabilities | 613,938 | 369,409 | 110,999 | 520,717 | 1,615,063 | |
| | 1 January - 31 December 2018 | | | | | |
| | Construction contracts | Rental | Trade | Energy | Consolidated | |
| Other segment information | | | | | | |
| <u>Capital expenditures</u> | | | | | | |
| Property, plant and equipment & investment property | 68,559 | 58,990 | 441 | 2,848 | 130,838 | |
| Intangible assets | 6,166 | 83 | - | 207 | 6,456 | |
| Total capital expenditures | 74,725 | 59,073 | 441 | 3,055 | 137,294 | |
| Depreciation expenses | 35,213 | 2,329 | 1,192 | 53,594 | 92,328 | |
| Amortization expenses | 2,549 | 88 | 9 | 140 | 2,786 | |

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5. SEGMENTAL INFORMATION (cont'd)

a) Business segments (cont'd)

| | 1 January - 31 December 2017 | | | | | |
|--|------------------------------|----------------|---------------|----------------|--------------|----------------|
| | Construction contracts | Rental | Trade | Energy | Eliminations | Consolidated |
| Revenues | 1,032,871 | 318,977 | 227,964 | 1,319,772 | - | 2,899,584 |
| Inter-segment revenues | 162,137 | - | 6,281 | 17,197 | (185,615) | - |
| Cost of revenues (-) | (811,523) | (103,248) | (179,760) | (1,054,443) | - | (2,148,974) |
| Inter-segment cost of revenues (-) | (162,137) | - | (6,281) | (17,197) | 185,615 | - |
| Gross profit | 221,348 | 215,729 | 48,204 | 265,329 | - | 750,610 |
| Administrative expenses (-) | (66,832) | (17,169) | (8,389) | (9,226) | - | (101,616) |
| Marketing, selling and distribution expenses (-) | (9,811) | (5,576) | (11,215) | (10) | - | (26,612) |
| Other operating income | 38,693 | 1,218 | 766 | 1,544 | - | 42,221 |
| Other operating expenses (-) | (19,541) | (4,148) | (2,296) | (224) | - | (26,209) |
| Profit from operations | 163,857 | 190,054 | 27,070 | 257,413 | - | 638,394 |
| Investment income | 346,658 | 58,723 | 16 | 41 | - | 405,438 |
| Investment expenses (-) | (92,628) | (47,975) | - | (33,091) | - | (173,694) |
| Profit from operations Before financial income/(expenses) | 417,887 | 200,802 | 27,086 | 224,363 | - | 870,138 |
| Financial income | 14,939 | 2,245 | 5,381 | 4,782 | (4,106) | 23,241 |
| Financial expenses (-) | (10,891) | (3,268) | (6,494) | (1,625) | 4,106 | (18,172) |
| Profit before tax | 421,935 | 199,779 | 25,973 | 227,520 | - | 875,207 |
| Current tax expense (-) | (42,179) | (38,735) | (5,763) | (31,348) | - | (118,025) |
| Deferred tax expense (-) | (7,030) | (8,677) | (625) | (26,854) | - | (43,186) |
| Profit for the year from continuing operations | 372,726 | 152,367 | 19,585 | 169,318 | - | 713,996 |

| | 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 - 31 December 2017 | | | | |
|--|------------------------------|----------------|------------|---------------|----------------|
| | Construction contracts | Rental | Trade | Energy | Consolidated |
| Other segment information | | | | | |
| <u>Capital expenditures</u> | | | | | |
| Property, plant and equipment & investment property | 81,264 | 139,709 | 281 | 28,502 | 249,756 |
| Intangible assets | 12,298 | 113 | 48 | 141 | 12,600 |
| Total capital expenditures | 93,562 | 139,822 | 329 | 28,643 | 262,356 |
| Depreciation expenses | 45,794 | 2,444 | 1,018 | 54,414 | 103,670 |
| Amortization expenses | 2,199 | 86 | 41 | 141 | 2,467 |

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5. SEGMENTAL INFORMATION (cont'd)

a) Business segments (cont'd)

Transfer prices between business segments are set out on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated in consolidation.

For the year ended 31 December 2018, revenue amounting to USD 1,456,518 (31 December 2017 - USD 1,319,772) is from Türkiye Elektrik Ticaret ve Taahhüt A.Ş. (TETAŞ), the share of which in consolidated revenue exceeds 10%. For the year ended 31 December 2018, cost of sales of the above mentioned revenues from TETAŞ, amounting to USD 1,065,214 (31 December 2017 - USD 908,581) 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 - 31 December 2018 | | | | | | |
|------------------------------|-----------|---|---------|---------|--------------|--------------|
| | Turkey | Russian Federation, Kazakhstan, Georgia | Iraq | Other | Eliminations | Consolidated |
| Net sales | 1,852,937 | 610,892 | 137,211 | 280,403 | - | 2,881,443 |
| Inter-segment sales | 49,382 | 47,443 | - | - | (96,825) | - |
| Capital expenditures | 46,341 | 63,337 | 18,082 | 9,534 | - | 137,294 |

| 31 December 2018 | | | | | | |
|------------------|-----------|---|--------|---------|--------------|--------------|
| | Turkey | Russian Federation, Kazakhstan, Georgia | Iraq | Other | Eliminations | Consolidated |
| Segmental assets | 4,968,762 | 2,437,170 | 96,639 | 293,710 | - | 7,796,281 |

| 1 January - 31 December 2017 | | | | | | |
|------------------------------|-----------|---|---------|---------|--------------|--------------|
| | Turkey | Russian Federation, Kazakhstan, Georgia | Iraq | Other | Eliminations | Consolidated |
| Net sales | 1,867,310 | 681,436 | 164,836 | 186,002 | - | 2,899,584 |
| Inter-segment sales | 65,838 | 119,777 | - | - | (185,615) | - |
| Capital expenditures | 98,160 | 142,763 | 8,282 | 13,151 | - | 262,356 |

| 31 December 2017 | | | | | | |
|------------------|-----------|---|---------|---------|--------------|--------------|
| | Turkey | Russian Federation, Kazakhstan, Georgia | Iraq | Other | Eliminations | Consolidated |
| Segmental assets | 5,073,605 | 2,630,522 | 101,135 | 226,027 | - | 8,031,289 |

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6. CASH AND CASH EQUIVALENTS

| | 31 December 2018 | 31 December 2017 |
|---|---------------------|---------------------|
| Cash on hand | 1,910 | 1,769 |
| Cash in bank | | |
| Demand deposits | 337,634 | 312,195 |
| Time deposits | 284,984 | 464,379 |
| Other | 2,184 | 3,375 |
| | <u>626,712</u> | <u>781,718</u> |
| Less: Restricted time deposits with maturity over three months and less than one year | (1,000) | (1,000) |
| Cash and cash equivalents at consolidated statement of cash flows | <u>625,712</u> | <u>780,718</u> |

Informations about the nature and level of risks related to cash and cash equivalents are provided in Note 34.

7. FINANCIAL INVESTMENTS**Current financial investments**

Short-term financial investments of the Group classified as financial assets at fair value through profit or loss as of 31 December 2018 and 2017 are detailed below:

| | 31 December 2018 | 31 December 2017 |
|---|---------------------|---------------------|
| Financial assets at fair value through profit or loss | | |
| Private sector bonds | | |
| - International markets | 76,784 | 42,400 |
| Foreign Government bonds | | |
| - International markets | 352,639 | 99,716 |
| Equity securities | | |
| - International markets | 428,954 | 323,449 |
| Mutual funds | | |
| - International markets | 41,140 | 113,321 |
| | <u>899,517</u> | <u>578,886</u> |

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7. FINANCIAL INVESTMENTS (cont'd)

Non-current financial investments

Long-term financial investments of the Group classified as financial assets at fair value through profit or loss as of 31 December 2018 and 2017 are detailed below:

| | 31 December 2018 | 31 December 2017 |
|---|---------------------|---------------------|
| Financial assets at fair value through profit or loss | | |
| Private sector bonds | | |
| - International markets | 1,417,956 | 1,744,174 |
| Foreign Government bonds | | |
| - International markets | 294,480 | 358,234 |
| Turkish Government bonds | | |
| - International markets | 12,927 | 15,955 |
| Equity securities | 101 | 309 |
| | <u>1,725,464</u> | <u>2,118,672</u> |

Maximum maturity dates of financial assets in the nature of borrowings are as follows:

| | 31 December 2018 | 31 December 2017 |
|--|------------------|------------------|
| Private Sector Bonds - International markets | 28 March 2073 | 28 March 2073 |
| Foreign Government Bonds - International markets | 17 October 2044 | 17 October 2044 |
| Turkish Government Bonds - International markets | 14 January 2041 | 14 January 2041 |

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8. FINANCIAL LIABILITIES**a) Bank loans**

| 31 December 2018 | | | | |
|---|------------------|----------|-----------|-----------------------|
| Short-term borrowings: | Weighted Average | Currency | Original | USD |
| | Interest Rate | Type | Currency | Equivalent |
| Short-term bank borrowings | 2.02% | EUR | 20,823 | 23,859 |
| | 4.50% | USD | 1,242 | 1,242 |
| | 1.65% | JPY | 3,257,370 | 29,439 |
| Total short-term borrowings | | | | <u>54,540</u> |
| Long-term borrowings: | | | | |
| Other long-term bank borrowings (*) | 5.10% | USD | 23,823 | 23,823 |
| | 2.55% | EUR | 20,932 | 23,984 |
| | 1.65% | JPY | 6,128,276 | 55,386 |
| Finance lease obligations | | | | 94,076 |
| | | | | <u>197,269</u> |
| Less: Current portion of long-term borrowings | | | | (18,914) |
| Total long-term borrowings | | | | <u>178,355</u> |

(*) Loan denominated in Japanese Yen were obtained to finance the operations of Enka Pazarlama which is the subsidiary of the Group.

| 31 December 2017 | | | | |
|---|------------------|----------|-----------|-----------------------|
| Short-term borrowings: | Weighted Average | Currency | Original | USD |
| | Interest Rate | Type | Currency | Equivalent |
| Short-term bank borrowings | 1.04% | EUR | 33,500 | 40,103 |
| | 0.00% | TL | 7 | 2 |
| Total short-term borrowings | | | | <u>40,105</u> |
| Long-term borrowings: | | | | |
| Other long-term bank borrowings (*) | 2.50% | EUR | 50,090 | 59,965 |
| | 1.64% | JPY | 7,808,046 | 69,182 |
| Finance lease obligations | | | | 142,258 |
| | | | | <u>271,405</u> |
| Less: Current portion of long-term borrowings | | | | (37,598) |
| Total long-term borrowings | | | | <u>233,807</u> |

(*) Loan denominated in Japanese Yen were obtained to finance the operations of Enka Pazarlama which is the subsidiary of the Group.

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8. FINANCIAL LIABILITIES (cont'd)**a) Bank loans (cont'd)**

Repayment schedule of long-term bank borrowings are as follows:

| | 31 December 2018 | 31 December 2017 |
|--|------------------|------------------|
| Less than 1 year | 15,456 | 32,225 |
| 1 - 2 years | 39,049 | 32,123 |
| 2 - 3 years | 29,958 | 32,017 |
| 3 - 4 years | 15,806 | 17,867 |
| 4 - 5 years | 2,924 | 14,915 |
| More than 5 years | - | - |
| Less : Current portion of long-term borrowings | (15,457) | (32,225) |
| | <u>87,736</u> | <u>96,922</u> |

The reconciliation of the cash flows arising from the financing activities of the year ended 31 December 2018 and the movements in liabilities is as follows:

| | 31 December 2017 | Cash flows | Non-cash Exchange rate change | Other non- cash movements | 31 December 2018 |
|---|------------------------|-----------------|--|---------------------------------|------------------------|
| Short term bank loans | 40,105 | (18,264) | (1,895) | 34,594 | 54,540 |
| Long term bank loans | 129,147 | 9,786 | (1,697) | (34,043) | 103,193 |
| Lease obligations (ST) | 5,373 | (3,458) | 792 | 751 | 3,458 |
| Lease obligations (LT) | 136,885 | (5,373) | (20,999) | (19,895) | 90,618 |
| Total liabilities arising from financing activities | <u>311,510</u> | <u>(17,309)</u> | <u>(23,799)</u> | <u>(18,593)</u> | <u>251,809</u> |

The reconciliation of the cash flows arising from the financing activities of the year ended 31 December 2017 and the movements in liabilities is as follows:

| | 31 December 2016 | Cash flows | Non-cash Exchange rate change | Other non- cash movements | 31 December 2017 |
|---|------------------------|----------------|--|---------------------------------|------------------------|
| Short term bank loans | 24,279 | 11,621 | 4,002 | 203 | 40,105 |
| Long term bank loans | 122,603 | (3,436) | 9,996 | (16) | 129,147 |
| Lease obligations (ST) | - | (5,373) | 7,281 | 3,465 | 5,373 |
| Lease obligations (LT) | 132,515 | (4,612) | 6,251 | 2,731 | 136,885 |
| Total liabilities arising from financing activities | <u>279,397</u> | <u>(1,800)</u> | <u>27,530</u> | <u>6,383</u> | <u>311,510</u> |

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8. FINANCIAL LIABILITIES (cont'd)**b) Finance lease obligations**

| 31 December 2018 | | | | |
|---|-----------------------------------|------------------|----------------------|-------------------|
| | Weighted Average Interest Rate | Currency Type | Original Currency | USD Equivalent |
| Current portion of long-term finance lease obligations | 3.00% | RUB | 240,203 | 3,458 |
| | | | | <u>3,458</u> |
| Long-term | 3.00% | RUB | 6,295,303 | 90,618 |
| | | | | <u>90,618</u> |
| | | | | <u>94,076</u> |

| 31 December 2017 | | | | |
|---|-----------------------------------|------------------|----------------------|-------------------|
| | Weighted Average Interest Rate | Currency Type | Original Currency | USD Equivalent |
| Current portion of long-term finance lease obligations | 3.00% | RUB | 309,504 | 5,373 |
| | | | | <u>5,373</u> |
| Long-term | 3.00% | RUB | 7,884,622 | 136,885 |
| | | | | <u>136,885</u> |
| | | | | <u>142,258</u> |

c) Finance lease commitments

As of 31 December 2018 and 2017, repayment schedule of finance lease obligations are as follows:

| | 31 December 2018 | 31 December 2017 |
|---------------------------------|------------------|------------------|
| Less than 1 year | 3,458 | 5,373 |
| 1 - 5 years | 18,063 | 25,912 |
| More than 5 years | 72,555 | 110,973 |
| Total finance lease obligations | <u>94,076</u> | <u>142,258</u> |

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9. TRADE RECEIVABLES AND PAYABLES**a) Trade receivables**

| | 31 December 2018 | 31 December 2017 |
|--|---------------------|---------------------|
| <u>Short-term trade receivables</u> | | |
| Trade receivables, net | 337,490 | 161,406 |
| Contract receivables | 174,825 | 151,315 |
| Notes and cheques receivables, net | 1,632 | 4,764 |
| Retention receivables (*) | 7,892 | 11,634 |
| | <u>521,839</u> | <u>329,119</u> |
| Less: Allowance for doubtful receivables | (15,901) | (22,660) |
| | <u>505,938</u> | <u>306,459</u> |

(*) Retention receivables are described as withheld by the customers until the contracts are completed or, in certain instances for even longer periods and undue trade receivables in the construction contracts.

Collection periods of receivables from construction works depends on the agreement conditions are between 30 and 90 days.

For the years ended 31 December 2018 and 2017, movement of allowance for doubtful receivables is as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---|---------------------------------|---------------------------------|
| Balance at beginning of the year | 22,660 | 28,947 |
| Additional provision (Note 26) | 1,694 | 130 |
| Foreign currency translation effect | 1,073 | 2,096 |
| Amounts recovered during the year (Note 26) | (122) | (17) |
| Write-offs (*) | (9,404) | (8,496) |
| Closing balance | <u>15,901</u> | <u>22,660</u> |

(*) Allowances of the previous periods which were decided as bad debts were written-off as of 31 December 2018 and 2017.

| | 31 December 2018 | 31 December 2017 |
|------------------------------------|---------------------|---------------------|
| <u>Long-term trade receivables</u> | | |
| Notes and cheques receivables, net | - | 1,066 |
| Trade receivables, net | 44,103 | 45,811 |
| | <u>44,103</u> | <u>46,877</u> |

Explanations about the nature and level of risks related to trade receivables are provided in Note 34.

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9. TRADE RECEIVABLES AND PAYABLES (cont'd)**b) Trade payables**

| | 31 December 2018 | 31 December 2017 |
|----------------------------------|---------------------|---------------------|
| <u>Short-term trade payables</u> | | |
| Trade payables | 342,686 | 153,166 |
| Notes payable | 246 | 88 |
| Other trade payables | 1,468 | 308 |
| | <u>344,400</u> | <u>153,562</u> |
| | | |
| | 31 December 2018 | 31 December 2017 |
| <u>Long term trade payables</u> | | |
| Trade payables | - | 59,002 |
| | <u>-</u> | <u>59,002</u> |

Explanations about the nature and level of risks related to trade payables are provided in Note 34.

10. OTHER RECEIVABLES AND PAYABLES**a) Other receivables**

| | 31 December 2018 | 31 December 2017 |
|--|---------------------|---------------------|
| <u>Short-term other receivables</u> | | |
| Deposits and guarantees given | 1,033 | 793 |
| Other receivables from related parties (Note 33) | 20 | 21 |
| | <u>1,053</u> | <u>814</u> |

b) Other payables

| | 31 December 2018 | 31 December 2017 |
|---|---------------------|---------------------|
| <u>Short-term other payables</u> | | |
| Deposits and guarantees taken | 20,776 | 19,513 |
| Other payables to related parties (Note 33) | 29 | 34 |
| | <u>20,805</u> | <u>19,547</u> |
| | | |
| | 31 December 2018 | 31 December 2017 |
| <u>Long-term other payables</u> | | |
| Deposits and guarantees taken | 24,927 | 17,192 |
| Other taxes payable | 82 | 802 |
| Other payable | - | 3 |
| | <u>25,009</u> | <u>17,997</u> |

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11. INVENTORIES

| | 31 December 2018 | 31 December 2017 |
|---|---------------------|---------------------|
| Raw materials and spare parts | 173,162 | 150,975 |
| Work in progress | 38,730 | 23,783 |
| Trade goods (machinery and others) | 68,174 | 29,855 |
| Finished goods | 2,768 | 4,897 |
| Goods in transit | 4,103 | 3,542 |
| Construction materials | 20,815 | 12,984 |
| Allowance for impairment on inventory (*) | (670) | (2,264) |
| | <u>307,082</u> | <u>223,772</u> |

(*) As of 31 December 2018 and 2017, allowance for impairment on finished goods and trade goods is recognized as an expense in cost of sales.

As of 31 December 2018, there is not any pledge on inventories (31 December 2017 - None).

12. CONSTRUCTION CONTRACTS

| | 31 December 2018 | 31 December 2017 |
|---|---------------------|---------------------|
| Costs incurred on uncompleted contracts | 2,489,083 | 2,259,859 |
| Recognized profit less recognized losses to date, net | 439,169 | 384,951 |
| | <u>2,928,252</u> | <u>2,644,810</u> |
| Less: Progress billing | (3,050,258) | (2,900,271) |
| | <u>(122,006)</u> | <u>(255,461)</u> |

The net balance is included in the consolidated balance sheet under the following captions:

| | 31 December 2018 | 31 December 2017 |
|---|---------------------|---------------------|
| Costs and estimated earnings in excess of billings on uncompleted contracts (net) | 45,203 | 12,168 |
| Billings in excess of costs and estimated earnings on uncompleted contracts (net) | (167,209) | (267,629) |
| | <u>(122,006)</u> | <u>(255,461)</u> |

As of 31 December 2018, the amount of advances received of subsidiaries and companies shares in joint operations is USD 42,809 (31 December 2017: USD 26,322).

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13. INVESTMENT PROPERTIES

As of 31 December 2018 and 2017, movement of investment properties is as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--|---------------------------------|---------------------------------|
| Opening balance | 2,081,941 | 1,886,911 |
| Currency translation difference | (240,186) | 62,260 |
| Change in fair value, net (Note 27) | 18,734 | (1,781) |
| Additions | 57,283 | 136,569 |
| Change in present value of lease obligations | (26,694) | (2,018) |
| Closing balance | <u>1,891,078</u> | <u>2,081,941</u> |

Investment properties include mainly real estate properties in Russia and Turkey which are leased to tenants. As of 31 December 2018 and 2017 investment properties consist of real estates in Russia from which rent income is obtained and lands and buildings held as investment in Turkey amounting to USD 11,021 (31 December 2017 - USD 11,021).

"Krasconsalt" which is licenced by Russian Federation as an independent valuation firm, has revalued the fair values of the investment properties of the Group in Russia.

Investment properties of the consolidated subsidiaries MKH, Mosenka and Enka TC have been revalued at fair value. Fair values of such investment properties are reviewed every year through the report of independent valuers. As of 31 December 2018, the fair values of investments properties of the consolidated subsidiaries MKH, Mosenka and Enka TC have been set respectively as follows: MKH; 12.52 million RUB equivalent to USD 180,221 (31 December 2017 - 11.96 million RUB equivalent to USD 207,690), Mosenka; 4.41 million RUB equivalent to USD 63,480 (31 December 2017 - 4.40 million RUB equivalent to USD 76,407), Enka TC; 58.09 million RUB equivalent to USD 836,188 (31 December 2017 - 53.66 million RUB equivalent to USD 931,656).

The fair values of the investment properties of the Company in Russia, determined at 31 December 2018 as USD 705,963 (31 December 2017 - USD 712,907). The investment properties of the Group located in Moscow includes land leased from Moscow City Authorities under a 49 year operating lease agreement, which are renewable at the option of the Group.

The investment properties owned by the Group are carried at fair value determined by independent professionally qualified valuers on the basis of market value supported by market evidence and other information obtained in the course of market research. Fair values of such investment properties are periodically reviewed by the Group through the report of independent valuers.

Valuation models such as income capitalization, discounted cash flow model and market value model for the circumstances that the fair value of the properties have not been determined based on transactions observable in the market because of the nature of the property and the lack of comparable data, a valuation model based on income capitalisation method has been applied. The fair value of the investment properties of the Group are estimated by using income capitalization method, with capitalization and discount rates ranging between 11.70% to 14.40% and 11.60% to 14.10% (31 December 2017 - 11.02% to 15.04% and 11.33% to 15.35%) respectively.

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13. INVESTMENT PROPERTIES (cont’d)

For the years ended 31 December 2018 and 2017 fair value hierarchy table of investment properties is as follows:

| | 31 December 2018 | Fair value as at 31 December 2018 | | |
|---------------------------------|---------------------|-----------------------------------|-----------------|------------------|
| | | 1. Level USD | 2. Level USD | 3. Level USD |
| Investment properties in Russia | 1,880,057 | - | - | 1,880,057 |
| Investment properties in Turkey | 11,021 | - | 11,021 | - |
| Total | <u>1,891,078</u> | <u>-</u> | <u>11,021</u> | <u>1,880,057</u> |

| | 31 December 2017 | Fair value as at 31 December 2017 | | |
|---------------------------------|---------------------|-----------------------------------|-----------------|------------------|
| | | 1. Level USD | 2. Level USD | 3. Level USD |
| Investment properties in Russia | 2,070,920 | - | - | 2,070,920 |
| Investment properties in Turkey | 11,021 | - | 11,021 | - |
| Total | <u>2,081,941</u> | <u>-</u> | <u>11,021</u> | <u>2,070,920</u> |

There is no transition between second and third levels during the year.

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14. PROPERTY, PLANT AND EQUIPMENT

| | Land and land improvements | Buildings and barracks | Machinery and equipment | Motor vehicles | Furniture and fixtures | Scaffolding and formworks | Aircraft (*) | Others | Construction in progress | Total |
|--|-------------------------------|---------------------------|----------------------------|-------------------|---------------------------|------------------------------|--------------|----------|-----------------------------|-------------|
| <u>Cost</u> | | | | | | | | | | |
| Opening balance as of 1 January 2018 | 241,213 | 178,768 | 2,233,757 | 36,642 | 58,213 | 23,495 | 14,899 | 16,637 | 11,268 | 2,814,892 |
| Currency translation differences | (2,492) | (9,390) | (5,507) | (1,327) | (1,704) | 445 | - | (199) | 120 | (20,054) |
| Revaluation (**) | - | 1,213 | - | - | - | - | - | - | - | 1,213 |
| Additions | 100 | 3,128 | 39,948 | 3,252 | 3,093 | 1,266 | - | 1,110 | 21,658 | 73,555 |
| Other reclassifications (***) | 617 | 7,507 | 6,306 | (1,664) | 166 | 83 | - | (134) | (12,881) | - |
| Disposals | (2) | (5,994) | (39,347) | (3,309) | (1,862) | (3,145) | - | (1,620) | (2,045) | (57,324) |
| Transfers to intangible assets | - | - | - | - | - | - | - | - | (6,208) | (6,208) |
| Closing balance as of 31 December 2018 | 239,436 | 175,232 | 2,235,157 | 33,594 | 57,906 | 22,144 | 14,899 | 15,794 | 11,912 | 2,806,074 |
| <u>Accumulated depreciation</u> | | | | | | | | | | |
| Opening balance as of 1 January 2018 | (30,319) | (25,981) | (1,029,864) | (22,043) | (46,872) | (21,649) | (10,930) | (12,583) | - | (1,200,241) |
| Currency translation differences | (47) | 232 | 2,510 | 617 | 1,210 | (445) | 54 | 503 | - | 4,634 |
| Charge of the year | (1,163) | (6,813) | (76,227) | (1,931) | (3,371) | (698) | (995) | (1,130) | - | (92,328) |
| Other reclassifications (***) | - | 200 | (1,832) | 1,804 | (210) | (35) | 265 | (192) | - | - |
| Disposals | - | 4,425 | 23,393 | 1,958 | 1,544 | 3,100 | - | 1,835 | - | 36,255 |
| Closing balance as of 31 December 2018 | (31,529) | (27,937) | (1,082,020) | (19,595) | (47,699) | (19,727) | (11,606) | (11,567) | - | (1,251,680) |
| Net book value as of 1 January 2018 | 210,894 | 152,787 | 1,203,893 | 14,599 | 11,341 | 1,846 | 3,969 | 4,054 | 11,268 | 1,614,651 |
| Net book value as of 31 December 2018 | 207,907 | 147,295 | 1,153,137 | 13,999 | 10,207 | 2,417 | 3,293 | 4,227 | 11,912 | 1,554,394 |

(*) The amount consists of the aircraft used by subsidiary of the Company, Air Enka.

(**) As of 31 December 2018, Group’s investments in hotel building of OMKH is revalued by independent qualified valuer “American Appraisal”. Revaluation difference arising from difference between book value and fair value is netted off with the related deferred tax and classified as revaluation surplus and included under equity. Revaluations are made by discounted cash flow methods.

(***) Other reclassification are classifications between sub-groups of fixed assets and have no effect on net book value of fixed assets.

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14. PROPERTY, PLANT AND EQUIPMENT (cont’d)

| | Land and land improvements | Buildings and barracks | Machinery and equipment | Motor vehicles | Furniture and fixtures | Scaffolding and formworks | Aircraft (*) | Others | Construction in progress | Total |
|---|-------------------------------|---------------------------|----------------------------|-------------------|---------------------------|------------------------------|--------------|----------|-----------------------------|-------------|
| Cost | | | | | | | | | | |
| Opening balance as of 1 January 2017 | 235,982 | 165,226 | 2,160,577 | 34,375 | 55,584 | 22,889 | 14,899 | 14,796 | 16,922 | 2,721,250 |
| Currency translation differences | 4,676 | 6,533 | 10,508 | 1,079 | 1,022 | 96 | - | (254) | 1,150 | 24,810 |
| Revaluation (**) | - | (5,390) | - | - | 322 | - | - | (322) | - | (5,390) |
| Additions | 146 | 2,534 | 23,937 | 2,709 | 3,548 | 528 | - | 2,675 | 77,110 | 113,187 |
| Other reclassifications (***) | | | | | | | | | - | - |
| Disposals | (80) | (5,233) | (28,635) | (1,689) | (2,495) | (18) | - | (264) | (551) | (38,965) |
| Transfers from construction in progress | 489 | 15,098 | 67,370 | 168 | 232 | - | - | 6 | (83,363) | - |
| Closing balance as of 31 December 2017 | 241,213 | 178,768 | 2,233,757 | 36,642 | 58,213 | 23,495 | 14,899 | 16,637 | 11,268 | 2,814,892 |
| Accumulated depreciation | | | | | | | | | | |
| Opening balance as of 1 January 2017 | (27,634) | (20,622) | (964,218) | (20,066) | (44,458) | (20,871) | (9,935) | (11,441) | - | (1,119,245) |
| Currency translation differences | (28) | (76) | (4,439) | (201) | (595) | (63) | - | 42 | - | (5,360) |
| Revaluation (**) | - | (397) | - | - | (98) | - | - | 98 | - | (397) |
| Charge of the year | (2,657) | (7,089) | (84,584) | (2,997) | (3,336) | (728) | (995) | (1,284) | - | (103,670) |
| Disposals | - | 2,205 | 23,227 | 1,390 | 1,593 | 13 | - | 3 | - | 28,431 |
| Other reclassifications (***) | - | (2) | 150 | (169) | 22 | - | - | (1) | - | - |
| Closing balance as of 31 December 2017 | (30,319) | (25,981) | (1,029,864) | (22,043) | (46,872) | (21,649) | (10,930) | (12,583) | - | (1,200,241) |
| Net book value as of 1 January 2017 | 208,348 | 144,604 | 1,196,359 | 14,309 | 11,126 | 2,018 | 4,964 | 3,355 | 16,922 | 1,602,005 |
| Net book value as of 31 December 2017 | 210,894 | 152,787 | 1,203,893 | 14,599 | 11,341 | 1,846 | 3,969 | 4,054 | 11,268 | 1,614,651 |

(*) The amount consists of the aircraft used by subsidiary of the Company, Air Enka.

(**) As of 31 December 2017, Group’s investments in hotel building of OMKH is revalued by independent qualified valuer “American Appraisal”. Revaluation difference arising from difference between book value and fair value is netted off with the related deferred tax and classified as revaluation surplus and included under equity. Revaluations are made by discounted cash flow methods.

(***) Other reclassifications are classifications between sub-groups of fixed assets and have no effect on net book value of fixed assets.

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14. PROPERTY, PLANT AND EQUIPMENT (cont'd)

As of 31 December 2018, total cost of property, plant and equipment obtained via finance lease and the related accumulated depreciation amounts to USD 4,001 (31 December 2017 - USD 4,063) and USD 3,838 (31 December 2017 - USD 3,867).

As of 31 December 2018, there is no security on the property, plant and equipment of the Group (31 December 2017 - None).

If the buildings were measured using the cost model, the carrying amounts would be as follows:

| | 31 December 2018 | 31 December 2017 |
|--------------------------|---------------------|---------------------|
| Cost | 290,406 | 292,216 |
| Accumulated depreciation | (96,581) | (99,553) |
| Net book value | <u>193,825</u> | <u>192,663</u> |

The distribution of depreciation expenses as of 31 December 2018 and 2017 is presented in Note 25.

As of 31 December 2018 and 2017 fair value hierarchy table of fixed asset is as follows:

| | 31 December 2018 | Fair value as at 31 December 2018 | | |
|-----------|---------------------|-----------------------------------|-----------------|-----------------|
| | | 1. Level USD | 2. Level USD | 3. Level USD |
| Lands | 207,907 | - | 207,907 | - |
| Buildings | 147,295 | - | - | 147,295 |
| Total | <u>355,202</u> | <u>-</u> | <u>207,907</u> | <u>147,295</u> |

| | 31 December 2017 | Fair value as at 31 December 2017 | | |
|-----------|---------------------|-----------------------------------|-----------------|-----------------|
| | | 1. Level USD | 2. Level USD | 3. Level USD |
| Lands | 210,894 | - | 210,894 | - |
| Buildings | 152,787 | - | - | 152,787 |
| Total | <u>363,681</u> | <u>-</u> | <u>210,894</u> | <u>152,787</u> |

There is no transition between second and third levels during the year.

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15. OTHER INTANGIBLE ASSETS

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---------------------------------|---------------------------------|---------------------------------|
| <u>Cost</u> | | |
| Opening balance | 50,691 | 37,325 |
| Currency translation difference | (856) | 773 |
| Additions | 6,456 | 12,600 |
| Transfer from fixed assets | 6,208 | - |
| Disposals | (404) | (7) |
| Closing balance | 62,095 | 50,691 |
| <u>Accumulated amortization</u> | | |
| Opening balance | (15,732) | (12,863) |
| Currency translation difference | 485 | (407) |
| Charge of the year | (2,786) | (2,467) |
| Disposals | - | 5 |
| Closing balance | (18,033) | (15,732) |
| Carrying value | 44,062 | 34,959 |

As of 31 December 2018, there is not any pledge on intangible assets (31 December 2017 - None).

The distribution of amortization expenses as of 31 December 2018 and 2017 is presented in Note 25.

16. GOODWILL

The Group had acquired the remaining part and increased to 100% interest stake in the Power Companies, where the Company had 40% shareholding. Regarding these acquisitions goodwill amounting to USD 22,077 was recorded in the consolidated financial statements as of 31 December 2017.

In accordance with the accounting policies described in Note 2.5, the Group reviews carrying amount of goodwill for impairment annually, or more frequently in cases where the circumstances indicate impairment. As of 31 December 2018, the Group tested impairment of carrying amount of goodwill by comparing the recoverable amount which is determined by value in use calculations. These calculations are based on projected before-tax cash flows based on financial budgets/forecasts approved by the Board of Directors. Expected growth rates are used to discount projected cash flows for periods greater than five years. Operating market growth rates, per capita gross domestic product and pricing information such as indices, have been acquired from outside sources. Estimations related to parameters such as selling prices, working capital requirements and fixed assets investments are based on Group's predictions and previous period realizations. In this analysis, USD currency and 9.00% (31 December 2017 - 9.25%) weighted average cost of capital has been used for estimation on Group's discounted cash flow over approved financial budget till 2033. The Group predicts that analysis which is related more than five years period regarding evaluation of results and estimations are more appropriate therefore impairment test bases fifteen year plans.

For the years ended 31 December 2018 and 2017, the movement of goodwill is as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|-----------------|---------------------------------|---------------------------------|
| Opening balance | 22,077 | 55,168 |
| Impairment loss | (22,077) | (33,091) |
| Closing balance | - | 22,077 |

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17. PREPAID EXPENSES AND DEFERRED INCOME

| | 31 December 2018 | 31 December 2017 |
|------------------------------------|---------------------|---------------------|
| Short-term Prepaid Expenses | | |
| Advances given | 26,757 | 45,100 |
| Prepaid expenses | 19,133 | 45,003 |
| | <u>45,890</u> | <u>90,103</u> |
| Long-term Prepaid Expenses | | |
| Advances given | 627 | - |
| Prepaid expenses | 5,799 | 18,745 |
| | <u>6,426</u> | <u>18,745</u> |
| Short-term Deferred Income | | |
| Advances taken | 88,063 | 25,043 |
| Deferred income | 51,305 | 199,191 |
| | <u>139,368</u> | <u>224,234</u> |
| Long-term Deferred Income | | |
| Advances taken | 494 | 3,550 |
| Deferred rent revenue | 585 | 862 |
| | <u>1,079</u> | <u>4,412</u> |

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18. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

| | 31 December 2018 | 31 December 2017 |
|------------------------------------|---------------------|---------------------|
| Short-term accrued expenses | | |
| Accrual for construction costs | 34,669 | 21,832 |
| Provision for legal claims | 13,180 | 13,347 |
| Accrued expenses | 3,604 | 10,978 |
| Forward accrual (*) | - | 4,045 |
| Other accrued expenses | 177 | 593 |
| | <u>51,630</u> | <u>50,795</u> |

Derivative instruments / forward contracts purchase – sales agreements

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

The table below shows derivative financial instruments analyzed by the term to maturity. The notional amount is the amount of a derivative’s underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

As of 31 December 2018 and 2017, the fair value of financial instrument is calculated by using forward exchange rates at the balance sheet date.

| | 31 December 2018 | | | |
|---------------------------------------|--------------------|-------------------|-----------------|-----------------|
| | Unrealized Loss | 1 to 12 months | 1 to 2 years | 2 to 5 years |
| Derivative instruments | 5,176 | - | - | - |
| Forward contracts sales agreements | - | 146,719 | - | - |
| Forward contracts purchase agreements | - | 149,966 | - | - |

| | 31 December 2017 | | | |
|---------------------------------------|--------------------|-------------------|-----------------|-----------------|
| | Unrealized Loss | 1 to 12 months | 1 to 2 years | 2 to 5 years |
| Derivative instruments | (3,881) | - | - | - |
| Forward contracts sales agreements | - | 91,223 | - | - |
| Forward contracts purchase agreements | - | 87,189 | - | - |

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19. COMMITMENTS

Operating lease commitments – Group as lessor

The minimum future rental income of the Group under non-cancelable operating leases at 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---------------------|---------------------|
| Within one year | 282,151 | 260,192 |
| After one year but not more than five years | 654,427 | 595,788 |
| More than 5 years | 299,534 | 273,273 |
| | <u>1,236,112</u> | <u>1,129,253</u> |

Litigations

As of 31 December 2018, the international arbitration which has been filed by the Group for the losses incurred and unbilled receivables related to the joint operation in Oman was under progress. Necessary provisions have been reserved in the Group’s consolidated financial statements.

As of 31 December 2018, The group has initiated necessary legal procedures regarding its receivables from overseas projects which is amounting to USD 38,211.

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19. COMMITMENTS (cont’d)

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

| Letters of guarantee, guarantee notes given, mortgage and pledges | 31 December 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 | | 578,382 | | 510,867 |
| -USD | 337,120 | 337,120 | 346,577 | 346,577 |
| -EUR | 140,435 | 160,912 | 76,192 | 91,213 |
| -TL | 132,544 | 25,194 | 79,838 | 21,166 |
| -Others (*) | | 55,156 | | 51,911 |
| B. Total amount for guarantees provided on behalf of subsidiaries accounted under full consolidation method | | 64,751 | | 69,282 |
| -USD | 85 | 85 | 85 | 85 |
| -EUR | - | - | - | - |
| -TL | 826 | 157 | 826 | 219 |
| -Others (*) | | 64,509 | | 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>643,133</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 31 December 2018 the portion of other guarantess given to shareholders’ equity is 0% (31 December 2017 - 0%).

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20. PROVISIONS FOR EMPLOYEE BENEFITS

a) Short-term employee benefits

Liabilities with the scope of employee benefits

| | 31 December 2018 | 31 December 2017 |
|-----------------|---------------------|---------------------|
| Payroll payable | 19,751 | 26,704 |
| | <u>19,751</u> | <u>26,704</u> |

Short-term provisions related to employee benefits

| | 31 December 2018 | 31 December 2017 |
|------------------------|---------------------|---------------------|
| Bonus accrual | 7,426 | 12,143 |
| Vacation pay liability | 7,354 | 8,317 |
| | <u>14,780</u> | <u>20,460</u> |

b) Long-term employee benefits

In accordance with existing social legislation, the Company and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay limited to a maximum of full TL 5,435 equivalent to full USD 1,034 (31 December 2017 - full TL 4,732 equivalent to full USD 1,255) per year of employment at the rate of pay applicable at the date of retirement or termination.

The liability is not funded as there is no funding requirement.

The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees. IAS 19 requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2018, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated with 4.11% real discount rate, assuming an annual inflation rate of 9.5% and a discount rate of 14.00% (31 December 2017 – 4.69 %).

Estimated amount of retirement pay not paid due to voluntary leaves is also taken into consideration. Retirement ceiling pay revised each six month period basis and ceiling amount of full TL 6,018 which is in effect since 1 January 2019 is used in the calculation of Groups' provision for retirement pay liability (1 January 2018 – full TL 5,001).

Movements of the provision for employee termination benefits for the years ended 31 December 2018 and 2017 are as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---------------------------------|---------------------------------|---------------------------------|
| Opening balance | 15,520 | 16,290 |
| Service cost | 1,984 | 2,890 |
| Actuarial loss | (451) | 1,345 |
| Retirement benefits paid | (2,067) | (3,877) |
| Currency translation difference | (1,677) | (1,128) |
| Closing balance | <u>13,309</u> | <u>15,520</u> |

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21. OTHER ASSETS AND LIABILITIES

| | 31 December 2018 | 31 December 2017 |
|----------------------------------|---------------------|---------------------|
| Other current assets | | |
| Deferred VAT | 11,783 | 8,550 |
| VAT receivable | 19,916 | 25,867 |
| Prepaid taxes and funds | 26,771 | 13,554 |
| Other | 8,211 | 20,754 |
| | <u>66,681</u> | <u>68,725</u> |
| Other non-current assets | | |
| Prepayment for land leases | 3,400 | 3,441 |
| Other | 487 | 886 |
| | <u>3,887</u> | <u>4,327</u> |
| Other current liabilities | | |
| VAT payable | 17,421 | 27,908 |
| Taxes and funds payable | 10,654 | 20,398 |
| Other | 653 | 430 |
| | <u>28,728</u> | <u>48,736</u> |

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22. SHARE CAPITAL AND RESERVES

a) Share capital

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

| | 31 December 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 (*) | | (55,725) | | (25,866) |
| | | 2,583,613 | | 2,530,937 |

(*) Group’s buyback transactions have reached 30,000,000 shares (2017 - 9,200,000) in 2018. Group has paid USD 55,725 (2017 – 25,866 USD) for the buyback transactions.

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 covered the TL 400,000 from dividend.

Within the above mentioned shares, founders of Enka İnşaat and former Enka Holding have one thousand founders share each. The founder shares of Enka İnşaat and the founder shares of former Enka Holding are entitled to receive, 5% and 2.5%, respectively, of the net income after the deduction of legal reserve and the first dividends.

The emitted Share Capital of the Company is divided into total 5.000.000.000 Shares, each having a nominal value of TL 1. Any Shareholders or their proxies or attorneys or representatives taking part in any General Assembly meetings have (1) vote for each Share Certificate they hold.

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22. SHARE CAPITAL AND RESERVES (cont’d)

b) Revaluation surplus

Revaluation fund

Revaluation difference arising from difference between book value and fair value of the buildings is netted off with the related deferred tax and classified as revaluation surplus and included under equity.

The movement of revaluation fund for the years 2018 and 2017 is as follows:

| | 1 January- 31 December 2018 | 1 January- 31 December 2017 |
|--|--------------------------------|--------------------------------|
| Opening balance | 176,262 | 182,004 |
| Currency translation difference | (1,068) | 315 |
| Revaluation of fixed assets | 1,213 | (5,787) |
| Deferred tax effect of revaluation of fixed assets | (5,728) | 1,185 |
| Transfer of depreciation difference (net of deferred tax) of revaluation effect | (1,337) | (1,455) |
| Closing balance | 169,342 | 176,262 |

Financial Risk Hedge Fund

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to profit or loss when the hedged transaction affects the profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy.

c) Legal reserves and accumulated profit

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code (“TCC”). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the company’s paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can be used only to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital. Dividend distributions are made in TL in accordance with its Articles of Association, after deducting taxes and setting aside the legal reserves as discussed above.

Public companies in Turkey make profit distributions in accordance with the regulations of CMB.

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22. SHARE CAPITAL AND RESERVES (cont'd)

c) Legal reserves and accumulated profit (cont'd)

Equity inflation adjustment and carrying value of extraordinary reserves can be used in free capital increase, cash profit distribution and loss deduction. However, equity inflation adjustment is subject to corporate tax if it is used in cash profit distribution.

As of 31 December 2018, legal reserves of Enka İnşaat are amounting to TL 853,222 equivalent to USD 162,182 (31 December 2017 – TL 703,819 equivalent to USD 186,595).

The movement of the share capital (in numbers and in historical TL) of the Group during 31 December 2018 and 2017 is as follows:

| | 31 December 2018 | | 31 December 2017 | |
|---|----------------------|------------------|------------------------|------------------|
| | Number | TL | Number | TL |
| At 1 January, | 4,581,600,000 | 4,581,600 | 419,160,000,000 | 4,191,600 |
| Bonus shares issued out of general reserve | 398,400,000 | 398,400 | 39,920,000,000 | 399,200 |
| Treasury shares | (30,000,000) | (30,000) | (920,000,000) | (9,200) |
| | <u>4,950,000,000</u> | <u>4,950,000</u> | <u>458,160,000,000</u> | <u>4,581,600</u> |

At the general assembly meeting held on 28 March 2018 , as of 31 December 2017 the Group has agreed and accepted to change the nominal value of each share from (1) Full Kr to (1) Full TL and the change has been registered in the Trade Registry on 2 April 2018.

d) Remeasurement of defined benefit plans

As a result of adoption of IAS 19, actuarial gains and losses are recognized as other comprehensive income.

23. SALES AND COST OF SALES

| Sales | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|------------------------|---------------------------------|---------------------------------|
| | | |
| Domestic sales | 1,852,937 | 1,867,310 |
| Export sales | 1,028,506 | 1,032,274 |
| | <u>2,881,443</u> | <u>2,899,584</u> |
| | | |
| Cost of Sales | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
| | | |
| Cost of domestic sales | 1,496,959 | 1,467,469 |
| Cost of export sales | 655,807 | 681,505 |
| | <u>2,152,766</u> | <u>2,148,974</u> |

Segmental information of the Group is disclosed in Note 5.

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24. MARKETING, SALES, DISTRIBUTION AND ADMINISTRATIVE EXPENSES

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--|---------------------------------|---------------------------------|
| Administrative expenses | 90,261 | 101,616 |
| Marketing, sales and distribution expenses | 22,926 | 26,612 |
| | <u>113,187</u> | <u>128,228</u> |

a) Marketing, sales and distribution expenses

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--|---------------------------------|---------------------------------|
| Employee benefit expenses | 16,390 | 16,783 |
| Advertisement & Commission Expenses | 2,298 | 3,771 |
| Transportation expenses | 1,365 | 1,468 |
| Office expenses | 641 | 778 |
| Business development expenses | 188 | 611 |
| Depreciation and amortization expenses (Note 25) | 333 | 56 |
| Other | 1,711 | 3,145 |
| | <u>22,926</u> | <u>26,612</u> |

b) General administrative expenses

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--|---------------------------------|---------------------------------|
| Employee benefit expenses | 49,494 | 55,865 |
| Consulting and legal expenses | 7,754 | 6,992 |
| Depreciation and amortization expenses (Note 25) | 6,164 | 6,987 |
| Insurance expense | 4,472 | 5,216 |
| Transportation expenses | 5,086 | 4,902 |
| Office Expenses | 2,884 | 4,346 |
| Rent expenses | 1,149 | 849 |
| Other | 13,258 | 16,459 |
| | <u>90,261</u> | <u>101,616</u> |

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25. EXPENSES BY NATURE

Depreciation and amortization expenses are detailed below:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|-------------------------------------|---------------------------------|---------------------------------|
| <u>Depreciation expenses</u> | | |
| Cost of revenues | 86,248 | 96,722 |
| Selling and administrative expenses | 6,080 | 6,948 |
| | <u>92,328</u> | <u>103,670</u> |
| <u>Amortization expenses</u> | | |
| Cost of revenues | 2,369 | 2,372 |
| Selling and administrative expenses | 417 | 95 |
| | <u>2,786</u> | <u>2,467</u> |
| | <u>95,114</u> | <u>106,137</u> |

Employee benefit expenses are detailed below:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---|---------------------------------|---------------------------------|
| Wages and salaries | 192,013 | 228,180 |
| Social security costs | 36,023 | 45,258 |
| Provision for employee termination benefits | 1,984 | 4,235 |
| Other benefits | 7,618 | 3,238 |
| | <u>237,638</u> | <u>280,911</u> |

26. OTHER OPERATING INCOME / EXPENSES

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---|---------------------------------|---------------------------------|
| Other operating income | | |
| Reversal of provision | - | 22,818 |
| Foreign exchange gains from trade receivables | 14,631 | 8,879 |
| Machinery and other rent income | 1,214 | 1,500 |
| Repaired spare parts gained as an inventory | 7,124 | 1,440 |
| Compensation income (*) | 44,288 | 1,013 |
| Insurance income | 372 | 905 |
| Service income | 729 | 725 |
| Collection of doubtful receivables (Note 9) | 122 | 17 |
| Commission income | 12 | 3 |
| Other | 8,639 | 4,921 |
| | <u>77,131</u> | <u>42,221</u> |

(*) Settlement income consists of the income accruals of settlements cases in relation to projects amounting to 187,824 TL, and the remaining consists of the settlement income comprised of early annulment of contracts of tenants.

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26. OTHER OPERATING INCOME / EXPENSES (cont'd)

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--|---------------------------------|---------------------------------|
| Other operating expense | | |
| Foreign exchange losses from trade receivables | 12,989 | 8,156 |
| Donations | 3,749 | 5,241 |
| Litigation provisions | 5,368 | 2,995 |
| Tax penalties | 109 | 2,523 |
| Commission expense | - | 1,028 |
| Capital increase expense | 459 | 537 |
| Provision for doubtful receivables (Note 9) | 1,694 | 130 |
| Loss from change in fair value of lands | - | - |
| Other | 6,842 | 5,599 |
| | <u>31,210</u> | <u>26,209</u> |

27. INVESTMENT INCOME / EXPENSES

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---|---------------------------------|---------------------------------|
| Income from investing activities | | |
| Interest income from financial investments | 115,642 | 119,347 |
| Increase in value of financial investments | - | 151,156 |
| Increase in the fair value of investment properties | 39,242 | 58,723 |
| Foreign exchange income from investing activities | 25,689 | 44,385 |
| Income from sale of securities | 9,536 | 21,481 |
| Dividend income | 11,717 | 9,408 |
| Gains from sales of property, plant and equipment | 1,334 | 938 |
| | <u>203,160</u> | <u>405,438</u> |

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27. INVESTMENT INCOME / EXPENSES (cont’d)

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---|---------------------------------|---------------------------------|
| Expenses from investing activities | | |
| Decrease in the fair value of investment properties | (20,508) | (60,504) |
| Losses from valuation of investment securities | (314,763) | (44,164) |
| Foreign exchange losses from investing activities | (45,859) | (35,595) |
| Goodwill impairment | (22,077) | (33,091) |
| Losses from sale of securities | (709) | (409) |
| Loss from sales of property, plant and equipment | (77) | 69 |
| | <u>(403,993)</u> | <u>(173,694)</u> |

28. FINANCIAL INCOME

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|-----------------------------|---------------------------------|---------------------------------|
| Foreign exchange gains | 34,155 | 15,586 |
| Interest income | 11,206 | 7,495 |
| Forward transactions income | 8,663 | 286 |
| Other | 241 | (126) |
| | <u>54,265</u> | <u>23,241</u> |

29. FINANCIAL EXPENSES

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---|---------------------------------|---------------------------------|
| Bank commission expenses | 5,313 | 5,113 |
| Foreign exchange losses | 39,989 | 4,816 |
| Forward transactions losses | 144 | 4,027 |
| Interest expenses | 6,043 | 3,542 |
| Commission expenses of letters of guarantee | 494 | 508 |
| Other | - | 166 |
| | <u>51,983</u> | <u>18,172</u> |

30. ASSETS HELD FOR SALE**Lands and buildings held for sale**

As of 31 December 2018, assets held for sale comprise of lands and buildings obtained by Enka Pazarlama and Enka Kazakhstan Branch in consideration of their doubtful receivables and are amounting to USD 23,376 (31 December 2017 – USD 23,636).

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31. TAXATION ON INCOME

Corporate Tax

The Company and its subsidiary in Turkey, are subject to the tax legislation and practices in force in Turkey. The corporation tax is declared until the evening of the twenty-fifth day of the fourth month following the end of the accounting period and is paid in one installment until the end of the relevant month.

In Turkey, the corporation tax rate is 22% as of 31 December 2018 (2017: 20%). However, in accordance with Article 91 of the "Law on Amendments to Certain Tax Laws and Other Laws" numbered 7061 and published in the Official Gazette dated 5 December 2017 and numbered 30261 and the provisional article 10 added to the Tax Law No.5520. It is foreseen that the corporation tax that should be paid over the profits of the 2018, 2019 and 2020 taxation periods is calculated as 22% and the taxation will be continued with 20% during this period, the Council of Ministers was given the authority to reduce the rate of 22% to 20%.

As of 31 December 2018, provisional tax is payable at the rate of 20% (2017: 20%) on the income generated for the three-month periods pursuant to tax legislation and the amounts paid in this manner are deducted from the tax calculated on the annual earnings. With the amendment made in the law, this ratio was set at 22% for the years 2018, 2019 and 2020.

Tax legislation in Turkey does not allow to fill consolidated tax returns of the Company and its subsidiary. Therefore, the tax liability reflected in the financial statements is calculated separately for each company.

According to the Corporate Tax Law, financial losses shown on the declaration can be deducted from the corporate tax base of the period not exceeding 5 years. Declarations and related accounting records can be examined within five years of the tax year, and tax accounts can be revised.

Turkey the joint-stock companies, corporation tax and non-responsible for the income tax and who are resident in Turkey, those made to those except for exempt and non-natural persons and dividend payments to legal persons not resident in Turkey are subject to 15% income tax.

Dividend payments by resident corporations to resident joint-stock company in Turkey again in Turkey are not subject to income tax. In addition, if the profit is not distributed or added to the capital, the income tax is not calculated.

Dividend income (excluding profits from investment funds 'participation certificates and investment trusts' shares) obtained from participating in the capital of another corporation which is fully taxpayed is exempt from corporation tax. In addition, 75% of the profits arising from the sale of founders' shares, redeemable shares and preferential rights of real estates (immovables) owned by the same duration as the participation shares included in the assets of the institutions for at least two full years are exempt from corporate taxation as of December 31, 2018. However, with the amendment made by Law No. 7061, this ratio has been reduced from 75% to 50% in terms of immovables and this ratio will be used as 50% in tax declarations to be prepared from 2018.

In order to benefit exclusively, the earning must be kept in a passive fund account and not withdrawn for 5 years. The sales price must be collected until the end of the second calendar year following the year in which the sale is made.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. Income tax withholding 24 April 2003 - 22 July 2006 is 10% among all companies. This rate since 22 July 2006, by the Council of Ministers No. 2006/10731 of 15% is applied. Undistributed dividends incorporated in share capital are not subject to income tax withholding.

Deferred Tax:

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

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31. TAXATION ON INCOME (cont'd)

Deferred tax assets and liabilities are calculated by using valid tax rates in related countries.

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--|---------------------------------|---------------------------------|
| Consolidated statement of profit or loss | | |
| Current corporate tax | (99,692) | (118,025) |
| Deferred tax expense | (29,168) | (43,186) |
| | <u>(128,860)</u> | <u>(161,211)</u> |

Tax legislations in other countries

As of 31 December 2018 and 2017 effective corporation tax rate in other countries are as follows:

| | 31 December 2018 | 31 December 2017 |
|-------------|---------------------|---------------------|
| Russia | 20% | 20% |
| Netherlands | 25% | 25% |
| Kazakhstan | % 28 - % 32 | % 28 - % 32 |
| Iraq | % 15 - % 35 | % 15 - % 35 |
| Romania | 16% | 16% |
| Oman | 12% | 12% |
| Kosovo | 10% | 10% |

The movement of the current income tax liability is given as follows:

| | 2018 | 2017 |
|--------------------------|---------------|---------------|
| 1 January | 60,188 | 51,979 |
| Current year tax expense | 99,692 | 118,025 |
| Taxes paid | (106,754) | (109,816) |
| 31 December | <u>53,126</u> | <u>60,188</u> |

A reconciliation of the nominal (on the basis of the income tax rate of the Company and the Turkish subsidiaries) to the effective tax rate for the years ended 31 December 2018 and 2017 is provided below:

| | 1 January - 31 December 2018 | | 1 January - 31 December 2017 | |
|--|------------------------------|--------------|------------------------------|--------------|
| Profit before tax | 462,860 | | 875,207 | |
| Tax per statutory tax rate 22% | 101,829 | 22% | 175,041 | 20% |
| Jobsites exempt from income tax | (25,328) | (% 5.0) | (14,672) | (% 0.5) |
| Effect of different functional currencies and others | 52,359 | 11.3% | 842 | 0.1% |
| Taxation charge | <u>128,860</u> | <u>28.3%</u> | <u>161,211</u> | <u>19.6%</u> |

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31. TAXATION ON INCOME (cont'd)

As of 31 December 2018 and 2017, the breakdown of temporary differences which give rise to deferred taxes is as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---------------------|---------------------|
| Remeasurement and revaluation of property, plant and equipment, intangible assets and investment property | (435,618) | (439,718) |
| GE Inventory in the context of "PSA" (*) | (47,378) | (47,975) |
| Adjustments on financial instruments and derivatives | (18,430) | (19,518) |
| Gross deferred income tax liabilities | (501,426) | (507,211) |
| Adjustment of revenue levelization | 3,099 | 30,324 |
| Allowance for retirement pay liability | 1,852 | 2,154 |
| Allowance for doubtful receivables | 952 | 1,207 |
| Allowance for inventories | - | 543 |
| Others | 16,878 | 8,562 |
| Gross deferred income tax assets | 22,781 | 42,790 |
| Net deferred tax liability | (478,645) | (464,421) |

(*) Implies deferred tax liabilities estimated from temporary differences related to "Parts and Services Agreement" (PSA) made with the Group's spare part supplier General Electric (GE).

Reflected as:

| | 31 December 2018 | 31 December 2017 |
|--------------------------|---------------------|---------------------|
| Deferred tax assets | 5,415 | 2,759 |
| Deferred tax liabilities | (484,060) | (467,180) |
| Net deferred liabilities | (478,645) | (464,421) |

Total amount of temporary differences and deferred tax liabilities which have not been recognized as of 31 December 2018 related with Group's shares in its subsidiaries, branches and associates is USD 2,420,397 (31 December 2017 - USD 1,556,891).

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31. TAXATION ON INCOME (cont’d)

Movement of net deferred tax asset (liability) can be presented as follows:

| | 2018 | 2017 |
|--|----------|---------|
| Balance at 1 January | 464,421 | 419,902 |
| Deferred income tax expense recognized in consolidated statement of profit or loss | 29,168 | 43,186 |
| Deferred income tax expense recognized in equity | 5,819 | (1,454) |
| Currency translation difference | (20,763) | 2,787 |
| 31 December | 478,645 | 464,421 |

As of 31 December 2018 and 2017, the breakdown of deferred taxes which are recognised in other comprehensive income is as follows:

| | 31 December 2018 | | | 31 December 2017 | | |
|---|------------------|--------------------------------|-------------------------|------------------|--------------------------------|-------------------------|
| | Before Taxation | Deferred tax (expense)/ income | Netted-off deferred tax | Before Taxation | Deferred tax (expense)/ income | Netted-off deferred tax |
| Change in revaluation of buildings | 1,213 | (5,728) | (4,515) | (5,787) | 1,185 | (4,602) |
| Revaluation loss of defined benefit plans | 453 | (91) | 362 | (1,345) | 269 | (1,076) |
| Changes in fair value of derivative assets | (1,924) | - | (1,924) | - | - | - |
| Changes in currency translation differences | (221,192) | - | (221,192) | 103,011 | - | 103,011 |
| | (221,450) | (5,819) | (227,269) | 95,879 | 1,454 | 97,333 |

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32. EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“Bonus Shares”) to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such bonus share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Company, are regarded similarly. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares without consideration through 31 December 2018.

| | 31 December 2018 | 31 December 2017 |
|---|------------------|------------------|
| Earning per share | | |
| - ordinary share certificate (full USD) | 0.07 | 0.14 |
| - founder shares (*) | - | - |
| Weighted average number of share certificates (nominal value of 1 TL each) | | |
| - ordinary share certificate | 4,950,000,000 | 4,980,000,000 |
| - treasury shares | (30,000,000) | (9,200,000) |
| - founder shares | | |

(*) Since 2018 profit distribution was not determined as of the date of the preparation date of the consolidated financial statements, total of the earnings per share is reflected on ordinary share certificates.

33. RELATED PARTY BALANCES AND TRANSACTIONS

Related parties

The Group is controlled by Tara Holding (49.72%) (31 December 2017 – 49.52%) and Tara and Gülçelik families (28.14%) (31 December 2017 – 28.01%). For the purposes of the consolidated financial statements, balances with the shareholder companies, individual shareholders, unconsolidated subsidiaries, associated companies, equity participations and their affiliates are referred to as “related parties”. Related parties also include management and members of the Group’s Board of Directors.

In the course of conducting business, the Group conducted various business transactions with related parties on commercial terms. The breakdown of balances with related parties and details of significant related party transactions are as follows:

| | 31 December 2018 | | 31 December 2017 | |
|------------------|------------------|-----------|------------------|-----------|
| | Receivables | Payables | Receivables | Payables |
| Shareholders | - | 29 | - | 34 |
| Enka Spor Kulübü | 20 | - | 21 | - |
| | <u>20</u> | <u>29</u> | <u>21</u> | <u>34</u> |

As of 31 December 2018, the Group gained USD 6.62 rent income from related parties (31 December 2017 - USD 7.13). As of 31 December 2018 the Group does not have any sales to related parties (2017 - None).

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33. RELATED PARTY BALANCES AND TRANSACTIONS (cont'd)

Top management's remuneration

The total wages paid for the members of Board of Directors of the Group is amounting to USD 3,318 (31 December 2017 - USD 2,817), the social security payments and retirement pay provisions are USD 400 (31 December 2017 – USD 453) and USD 374 (31 December 2017– USD 234) respectively. Total wages paid for the general manager, general coordinators and vice general managers of the Group (except BOD members), is amounting to USD 13,221 (31 December 2017 – USD 15,156), the social security payment and retirement pay provisions are USD 1,087 (31 December 2017 – USD 1,109) and USD 2,532 (31 December 2017 – USD 1,598) respectively.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, investment securities, finance leases, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The management reviews and agrees policies for managing each of these risks. The Group monitors the market price risk arising from all financial instruments periodically.

Capital risk management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. Capital structure of the Group comprises from liabilities, cash and cash equivalents, paid-in capital and legal reserves explained in Note 22.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or the shareholders may make a direct cash contribution of the needed working capital to the Group. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 2017.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

Total Assets / Total Equity

| | 31 December 2018 | 31 December 2017 |
|---|---------------------|---------------------|
| Cash, cash equivalents and financial assets | 3,251,693 | 3,479,276 |
| Less: Total Financial Liabilities | 251,809 | 311,510 |
| Net Assets | 2,999,884 | 3,167,766 |
| Equity | 6,181,218 | 6,283,813 |
| Equity - Net Assets | 3,181,334 | 3,116,047 |
| Total Net Assets to Equity Ratio | 48.53% | 50.41% |

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Financial risk factors

Interest risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates. The Group is managing interest risk that arises from assets and liabilities sensitive to interest risk by using balancing assets and liabilities.

Foreign currency risk

The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to Euro, Russian Ruble 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.

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

| | <u>31 December 2018</u> | <u>31 December 2017</u> |
|--|-------------------------|-------------------------|
| A. Assets denominated in foreign currency | 746,603 | 819,844 |
| B. Liabilities denominated in foreign currency | <u>(400,836)</u> | <u>(406,852)</u> |
| Net foreign currency position (A+B) | <u>345,767</u> | <u>412,992</u> |

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Financial risk factors (cont'd)

Foreign currency risk (cont'd)

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

| 31 December 2018 | | | | | | | |
|---|-----------------|-------------------|----------------|-------------------|------------------|---------------|-------------------------|
| | TL | USD Equivalent | Euro | USD Equivalent | Other USD (*) | USD (**) | Total USD Equivalent |
| Cash and cash equivalents | 25,852 | 4,914 | 64,370 | 73,755 | 115,853 | 17,143 | 211,665 |
| Financial investments | 238,968 | 45,423 | 105,612 | 121,010 | 46,929 | - | 213,362 |
| Trade and other receivables | 94,708 | 18,002 | 57,223 | 65,566 | 49,937 | 3,418 | 136,923 |
| Other current assets | 200,695 | 38,148 | 28,026 | 32,112 | 19,067 | 42,237 | 131,564 |
| Current assets | 560,223 | 106,487 | 255,231 | 292,443 | 231,786 | 62,798 | 693,514 |
| Financial investments | - | - | 11,238 | 12,876 | 33,807 | - | 46,683 |
| Trade and other receivables | - | - | - | - | - | - | - |
| Other non-current assets | 9,798 | 1,862 | 1 | 1 | 3,916 | 627 | 6,406 |
| Non-current assets | 9,798 | 1,862 | 11,239 | 12,877 | 37,723 | 627 | 53,089 |
| Total assets | 570,021 | 108,349 | 266,470 | 305,320 | 269,509 | 63,425 | 746,603 |
| Short-term borrowings | 3 | 1 | 20,823 | 23,859 | 45,432 | - | 69,292 |
| Trade and other payables | 86,518 | 16,445 | 48,883 | 56,010 | 38,868 | 420 | 111,743 |
| Other current liabilities and accrued expenses | 380,257 | 72,280 | 2,022 | 2,317 | 37,692 | 22,194 | 134,483 |
| Current liabilities | 466,778 | 88,726 | 71,728 | 82,186 | 121,992 | 22,614 | 315,518 |
| Trade and other payables | - | - | - | - | - | - | - |
| Long-term borrowings | - | - | 20,932 | 23,984 | 58,560 | - | 82,544 |
| Other non-current liabilities | 432 | 82 | 50 | 57 | - | 2,635 | 2,774 |
| Non-current liabilities | 432 | 82 | 20,982 | 24,041 | 58,560 | 2,635 | 85,318 |
| Total liabilities | 467,210 | 88,808 | 92,710 | 106,227 | 180,552 | 25,249 | 400,836 |
| Net foreign currency position | 102,811 | 19,541 | 173,760 | 199,093 | 88,957 | 38,176 | 345,767 |
| Net notional amount of derivatives | (61,972) | (11,780) | 37,165 | 42,584 | - | - | 30,804 |

(*) 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.

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Financial risk factors (cont'd)

Foreign currency risk (cont'd)

| 31 December 2017 | | | | | | | |
|---|----------------|-------------------|----------------|-------------------|------------------|---------------|-------------------------|
| | TL | USD Equivalent | Euro | USD Equivalent | Other USD (*) | USD (**) | Total USD Equivalent |
| 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 | - | - | 91,069 |

(*) 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.

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Financial risk factors (cont'd)

Foreign currency risk (cont'd)

The details of the forward contracts and sales-purchase agreements are explained in Note 18 in order to manage Group's foreign currency position.

The following table demonstrates the sensitivity to reasonably possible increase of 10% in the exchange rates against functional currency, with all other variables held constant, of the Group's consolidated statement of profit or loss.

The following table details the Group's foreign currency sensitivity as at 31 December 2018 and 2017:

| | 31 December 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) | 1,954 | (1,954) | 6,635 | (6,635) |
| 2- Portion hedged against TL risk (-) | (1,178) | 1,178 | - | - |
| 3- TL net effect (1+2) | 776 | (776) | 6,635 | (6,635) |
| <i>In the case of Euro gaining 10% value against US Dollar</i> | | | | |
| 4- Euro net asset / (liability) | 19,909 | (19,909) | 13,217 | (13,217) |
| 5- Portion hedged against Euro risk (-) | 4,258 | (4,258) | 9,107 | (9,107) |
| 6- Euro net effect (4+5) | 24,167 | (24,167) | 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) | 8,896 | (8,896) | 16,814 | (16,814) |
| 8- Portion hedged against other foreign currency risk (-) | - | - | - | - |
| 9- Other foreign currency net effect (7+8) | 8,896 | (8,896) | 16,814 | (16,814) |
| Total (3+6+9) | 33,839 | (33,839) | 45,773 | (45,773) |

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group seeks to manage its credit risk exposure through diversification of sales activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate. It is the Group's policy to enter into financial instruments with a diversity of creditworthy counterparties. Therefore, the Group does not expect to incur material credit losses on its risk management or other financial instruments.

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Financial risk factors (cont'd)

Credit risk (cont'd)

| | Receivables | | | | Bank deposits | Derivative instruments | Financial assets at fair value through profit or loss (**) |
|---|-------------------|-------------------|---------------|-----------|---------------|------------------------|--|
| | Trade receivables | Other receivables | | | | | |
| | Related party | 3rd party | Related party | 3rd party | | | |
| 31 December 2018 | | | | | | | |
| The maximum amount of exposure to credit risk at the end of the reporting period (A+B+C+D+E) | - | 550,041 | 20 | 1,033 | 624,802 | - | 2,195,926 |
| - Total receivable that have been secured with collaterals, other credit enhancements etc.* | - | 246,316 | - | - | - | - | - |
| A. Financial assets that are either past due or impaired | - | 509,607 | 20 | 1,033 | 624,802 | - | 2,195,926 |
| B. The amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated | - | - | - | - | - | - | - |
| C. The amount of financial assets that are past due as at the end of the reporting period but not impaired. | - | 40,434 | - | - | - | - | - |
| - The amount that have been secured with collaterals, other credit enhancements etc. | - | 40,434 | - | - | - | - | - |
| D. The amount of financial assets that are impaired | - | - | - | - | - | - | - |
| - Past due (Gross book value) | - | 15,901 | - | - | - | - | - |
| - The amount of impairment (-) | - | (15,901) | - | - | - | - | - |
| - The amount that have been secured with collaterals, other credit enhancements etc. | - | - | - | - | - | - | - |
| - Not past due (Gross book value) | - | - | - | - | - | - | - |
| - The amount of impairment (-) | - | - | - | - | - | - | - |
| E. Off balance sheet credit risk amount | - | - | - | - | - | - | - |

| | Receivables | | Bank deposits | Derivative instruments | Other |
|--------------------------------|-------------------|-------------------|---------------|------------------------|-------|
| | Trade receivables | Other receivables | | | |
| 31 December 2018 | | | | | |
| Overdue between 1 to 30 days | 29,602 | - | - | - | - |
| Overdue between 1 to 3 months | 6,561 | - | - | - | - |
| Overdue between 3 to 12 months | 4,117 | - | - | - | - |
| Overdue between 1 to 5 years | 94 | - | - | - | - |
| Overdue over 5 years | 60 | - | - | - | - |
| | 40,434 | - | - | - | - |

(*) As of 31 December 2018, trade receivables from TETAŞ amounting to USD 202,623 are guaranteed by Turkish Treasury.

(**) Equity securities are excluded since they do not expose any credit risk.

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Financial risk factors (cont'd)

Credit risk (cont'd)

| 31 December 2017 | Receivables | | | | Bank deposits | Derivative instruments | Financial assets |
|---|-------------------|-----------|-------------------|-----------|---------------|------------------------|-----------------------------|
| | Trade receivables | | Other receivables | | | | at fair value |
| | Related party | 3rd party | Related party | 3rd party | | | through profit or loss (**) |
| The maximum amount of exposure to credit risk at the end of the reporting period (A+B+C+D+E) | - | 353,336 | 21 | 793 | 779,949 | - | 2,373,800 |
| - Total receivable that have been secured with collaterals, other credit enhancements etc.* | - | 120,254 | - | - | - | - | - |
| A. Financial assets that are either past due or impaired | - | 322,512 | 21 | 793 | 779,949 | - | 2,373,800 |
| B. The amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated | - | - | - | - | - | - | - |
| C. The amount of financial assets that are past due as at the end of the reporting period but not impaired. | - | 30,824 | - | - | - | - | - |
| - The amount that have been secured with collaterals, other credit enhancements etc. | - | 30,824 | - | - | - | - | - |
| D. The amount of financial assets that are impaired | - | - | - | - | - | - | - |
| - Past due (Gross book value) | - | 22,660 | - | - | - | - | - |
| - The amount of impairment (-) | - | (22,660) | - | - | - | - | - |
| - The amount that have been secured with collaterals, other credit enhancements etc. | - | - | - | - | - | - | - |
| - Not past due (Gross book value) | - | - | - | - | - | - | - |
| - The amount of impairment (-) | - | - | - | - | - | - | - |
| E. Off balance sheet credit risk amount | - | - | - | - | - | - | - |

| 31 December 2017 | Receivables | | Bank deposits | Derivative instruments | Other |
|--------------------------------|-------------------|-------------------|---------------|------------------------|-------|
| | Trade receivables | Other receivables | | | |
| Overdue between 1 to 30 days | 13,377 | - | - | - | - |
| Overdue between 1 to 3 months | 9,940 | - | - | - | - |
| Overdue between 3 to 12 months | 7,238 | - | - | - | - |
| Overdue between 1 to 5 years | 24 | - | - | - | - |
| Overdue over 5 years | 245 | - | - | - | - |
| | 30,824 | - | - | - | - |

(*) As of 31 December 2017, trade receivables from TETAŞ amounting to USD 80,046 are guaranteed by Turkish Treasury.

(**) Equity securities are excluded since they do not expose any credit risk.

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Financial risk factors (cont'd)

Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements. The risk is mitigated by matching the cash in and out flow volume supported by committed lending limits from qualified credit institutions.

The maturity analysis of the non-derivative financial liabilities is presented based on the period between balance sheet date and maturity date of these non-derivatives financial liabilities.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

Current liabilities

31 December 2018

| | <u>Total cash outflow</u> | | | | |
|---|---------------------------|---------------------|------------------|---------------|----------------|
| | | <u>according to</u> | | <u>1 to 3</u> | <u>3 to 12</u> |
| <u>Contractual maturity analysis</u> | <u>Carrying</u> | <u>contract</u> | <u>Up to 1</u> | <u>months</u> | <u>months</u> |
| | <u>value</u> | <u>(I+II+III)</u> | <u>month (I)</u> | <u>(II)</u> | <u>(III)</u> |
| Non-derivative financial liabilities | | | | | |
| Financial liabilities and finance lease obligations | 73,454 | 74,462 | 741 | 8,651 | 65,070 |
| Trade payables | 344,400 | 344,400 | 282,572 | 25,697 | 36,131 |
| Other payables to related parties | 29 | 29 | 29 | - | - |
| Other payables related to employee benefits | 19,751 | 19,751 | 13,957 | 203 | 5,591 |
| Other payables | 20,776 | 20,776 | 6 | - | 20,770 |

Non-current liabilities

31 December 2018

| <u>Contractual maturity analysis</u> | <u>Carrying value</u> | <u>Total cash outflow</u> | <u>1 -3 years</u> | <u>3 to 5</u> | <u>5+ years</u> |
|---|-----------------------|---------------------------|-------------------|---------------|-----------------|
| | | <u>according to</u> | | <u>years</u> | |
| | | <u>contract</u> | <u>(I)</u> | <u>(II)</u> | <u>(III)</u> |
| | | <u>(I+II+III)</u> | | | |
| Non-derivative financial liabilities | | | | | |
| Financial liabilities and finance lease obligations | 178,355 | 179,381 | 77,054 | 42,789 | 59,538 |
| Trade payables | - | - | - | - | - |
| Other payables | 25,009 | 25,009 | 24,139 | 345 | 525 |

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Financial risk factors (cont'd)

Liquidity risk (cont'd)

Current liabilities

31 December 2017

| | <u>Total cash outflow</u> | | | | |
|---|---------------------------|---------------------|------------------|---------------|----------------|
| | | <u>according to</u> | | <u>1 to 3</u> | <u>3 to 12</u> |
| <u>Contractual maturity analysis</u> | <u>Carrying</u> | <u>contract</u> | <u>Up to 1</u> | <u>months</u> | <u>months</u> |
| | <u>value</u> | <u>(I+II+III)</u> | <u>month (I)</u> | <u>(II)</u> | <u>(III)</u> |
| Non-derivative financial liabilities | | | | | |
| Financial liabilities and finance lease obligations | 77,703 | 78,962 | 17,968 | 19,474 | 41,520 |
| Trade payables | 153,562 | 153,562 | 91,881 | 25,279 | 36,402 |
| Other payables to related parties | 34 | 34 | 34 | - | - |
| Other payables | 19,513 | 19,513 | 7 | - | 19,506 |

Non-current liabilities

31 December 2017

| | <u>Total cash outflow</u> | | | | |
|---|---------------------------|---------------------|-------------------|---------------|-----------------|
| | | <u>according to</u> | | <u>3 to 5</u> | |
| <u>Contractual maturity analysis</u> | <u>Carrying</u> | <u>contract</u> | <u>1 -3 years</u> | <u>years</u> | <u>5+ years</u> |
| | <u>value</u> | <u>(I+II+III)</u> | <u>(I)</u> | <u>(II)</u> | <u>(III)</u> |
| Non-derivative financial liabilities | | | | | |
| Financial liabilities and finance lease obligations | 233,807 | 235,628 | 95,045 | 43,166 | 97,417 |
| Trade payables | 59,002 | 59,005 | 59,005 | - | - |
| Other payables | 17,997 | 17,994 | 17,339 | 506 | 149 |

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35. 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 the trade payables 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.

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.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

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

Fair value hierarchy (cont’d)

31 December 2018:

| | Level 1 | Level 2 | Level 3 |
|---|------------------|----------------|----------|
| Private sector bonds | 1,494,740 | - | - |
| Equity securities | 429,055 | - | - |
| Foreign government bonds | 647,119 | - | - |
| Turkish government bonds | 12,927 | - | - |
| Mutual funds | 41,140 | - | - |
| Financial assets at fair value through profit or loss | 2,624,981 | - | - |
| Derivative instruments | - | (5,176) | - |
| Financial liabilities at fair value through profit or loss | - | (5,176) | - |

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 | - |

36. EVENTS AFTER THE REPORTING PERIOD

On 16 January 2019, according to the press release of the Capital Markets Board of Turkey (the Board) dated 25 July 2016 in order to protect the interests of minority shareholders, Board of Directors has resolved to buyback the shares up to nominal value of Full TL 10,000,000, to determine the funds to be reserved as Full TL 75,000,000 for this purpose and to authorize Member of the Executive Committee İlhan Gücüyener for the transactions till the second announcement of the Board. After the reporting period of the Company the total nominal value of the buyback shares was Full TL 3,245,771.

In February 2019, following expiry of the Electricity Sale Agreements with Elektrik Üretim A.Ş., Adapazarı and Gebze Combined Cycle Power Plants, owned by the group, have suspended their generation.