

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

**CONSOLIDATED FINANCIAL
STATEMENTS AS AT AND FOR THE
YEAR ENDED
31 DECEMBER 2019 WITH
INDEPENDENT AUDITORS' REPORT**

13 March 2020

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



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Independent Auditors' Report

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

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 2019, the consolidated statements of profit or loss, the consolidated statements of 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 2019, 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 from construction contracts constitutes 59% of the Group's total revenue.</p> <p>The recognition of the amount and timing of the revenue generated from construction contracts in the period in which they are incurred calculated and accounted for by using the input method under IFRS 15 Revenue from Contracts with Customer. By using the input method revenue is recognized 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 obligation in the consolidated financial statements.</p> <p>The measurement of contract revenue and estimation of the contract costs are based on a variety of uncertainties that depend on the outcome of future events and demand of revision to the projects which requires significant management's estimates and judgements.</p> <p>Revenue recognition from construction contracts was determined as key audit matter, due to the significant management estimates and the level of judgement applied by management.</p>	<p>Our audit procedures for testing revenue recognition included below:</p> <ul style="list-style-type: none"> - 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. - We assessed the terms and conditions of the significant contracts in order to evaluate the management's estimate whether revenue is recognized within the appropriate financial period. - 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 in the notes to consolidated financial statements.



Impairment of property, plant and equipment

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

Key Audit Matter	How the matter was addressed in our audit
<p>As of 31 December 2019, property, plant and equipment constitute 17% of the Group's total assets.</p> <p>The Group recognises its property, plant and equipment at cost after deducting accumulated depreciation and accumulated impairment losses except for its lands and buildings. The Group evaluates whether there is an indication of impairment in the property, plant and equipment in each period. If there is an indication of impairment, the recoverable amount of the assets with the indication of impairment is estimated within the scope of "IAS 36 Impairment of Assets" by the Group.</p> <p>Impairment of property, plant and equipment is determined as key audit matter, due to significant management estimates and assumptions used in measurement of recoverable amount.</p>	<p>Our audit procedures for testing impairment of property, plant and equipment included below :</p> <ul style="list-style-type: none">- We assessed and observed the impairment analysis of property, plant and equipment performed by the management.- We evaluated the appropriateness of the method used by the Group in measuring the recoverable amount of the assets.- We assessed and tested the inputs and estimates used in the impairment analysis of property, plant and equipment performed by the management to determine fair value less cost to sell.- We assessed the adequacy of the disclosures for impairment of property, plant and equipment in the notes to consolidated financial statements.



Fair value 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>As of 31 December 2019, the investment properties represent 25% of the Group's total assets.</p> <p>The Group recognizes the investment properties at fair value. The Group uses independent valuation firms to determine the fair values of investment properties.</p> <p>Valuation of investment property is determined as key audit matter, due to significant management estimates and judgement used in valuation methods to determine fair value of investment properties.</p>	<p>Our audit procedures for testing fair value measurement of investment property included below:</p> <ul style="list-style-type: none">- We evaluated the capabilities and competence of the external valuers appointed by the Group for valuation of investment property.- We examined 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 examined the appropriateness of 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 in the notes to consolidated financial statements.

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 Group 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

13 March 2020
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 2019**

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

ASSETS	Notes	31 December 2019	31 December 2018
Current Assets		2,922,953	2,521,452
Cash and cash equivalents	6	1,017,048	626,712
Financial investments	7	1,165,611	899,517
Trade receivables	9	257,502	505,938
Other receivables			
Other receivables from related parties	10,32	9	20
Other receivables from third parties	10	965	1,033
Costs and estimated earnings in excess of billings on uncompleted contracts	12	69,193	45,203
Prepaid expenses	16	68,140	45,890
Inventories	11	272,111	307,082
Other current assets	20	49,029	66,681
		<u>2,899,608</u>	<u>2,498,076</u>
Assets held for sale	29	23,345	23,376
Non-Current Assets		5,394,946	5,274,829
Financial investments	7	1,777,018	1,725,464
Trade receivables	9	17,404	44,103
Investment properties	13	2,079,016	1,891,078
Property, plant and equipment	14	1,440,096	1,554,394
Intangible assets			
Other intangible assets	15	64,316	44,062
Prepaid expenses	16	9,774	6,426
Deferred tax assets	30	7,040	5,415
Other non-current assets	20	282	3,887
TOTAL ASSETS		<u>8,317,899</u>	<u>7,796,281</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 2019**

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

LIABILITIES	Notes	31 December 2019	31 December 2018
Current Liabilities		971,702	913,251
Short-term borrowings	8	33,208	54,540
Current portion of long-term borrowings	8	19,123	18,914
Trade payables	9	176,371	344,400
Payables to employees	19	22,138	19,751
Other payables			
Payables to related parties	10,32	26	29
Payables to third parties	10	18,655	20,776
Billings in excess of costs and estimated earnings on uncompleted contracts	12	199,346	167,209
Deferred income	16	354,688	139,368
Taxation on income	30	30,306	53,126
Provisions			
Provisions for employee benefits	19	11,751	14,780
Other provisions	17	39,206	51,630
Other current liabilities	20	66,884	28,728
Non-Current Liabilities		709,111	701,812
Long-term borrowings	8	156,192	178,355
Other payables	10	24,164	25,009
Deferred income	16	796	1,079
Provisions for employee benefits	19	13,477	13,309
Deferred tax liabilities	30	514,482	484,060
EQUITY		6,637,086	6,181,218
Equity Attributable to Equity Holders of the Parent		6,567,519	6,102,790
Share capital	21	2,639,338	2,639,338
Treasury shares	21	(80,004)	(55,725)
Revaluation surplus	21	116,276	169,342
Currency translation difference		(1,203,018)	(1,311,178)
Other reserves		(1,104)	(1,644)
Legal reserves and accumulated profit		5,096,031	4,662,657
Non-Controlling Interests		69,567	78,428
TOTAL LIABILITIES AND EQUITY		8,317,899	7,796,281

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 2019

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

	Notes	1 January - 31 December 2019	1 January - 31 December 2018
CONTINUING OPERATIONS			
Revenue	5,22	1,892,576	2,881,443
Cost of revenues (-)	5,22	(1,456,509)	(2,152,766)
GROSS PROFIT		436,067	728,677
Administrative expenses (-)	5,23	(108,082)	(90,261)
Marketing, selling and distribution expenses (-)	5,23	(23,828)	(22,926)
Other operating income	5,25	56,356	77,131
Other operating expenses (-)	5,25	(35,372)	(31,210)
PROFIT FROM OPERATIONS		325,141	661,411
Income from investing activities	5,26	592,704	203,160
Expenses from investing activities (-)	5,26	(131,408)	(403,993)
OPERATING PROFIT		786,437	460,578
BEFORE FINANCE EXPENSES			
Financial income	5,27	35,098	54,265
Financial expenses (-)	5,28	(28,175)	(51,983)
PROFIT BEFORE TAX		793,360	462,860
FROM CONTINUING OPERATIONS			
Current tax expense (-)	5,30	(89,968)	(99,692)
Deferred tax expense (-)	5,30	(21,220)	(29,168)
PROFIT FOR THE YEAR FROM		682,172	334,000
CONTINUING OPERATIONS			
NET PROFIT FOR THE YEAR		682,172	334,000
Attributable to:			
Non-controlling interests		(3,535)	6,464
Equity holders of the parent		685,707	327,536
		682,172	334,000
Earning per share from continuing operations			
- ordinary share certificate (full USD)	31	0.14	0.07
Weighted average number of shares			
(Weighted average number of shares of 1 Full TL each)		4,924,600,000	4,924,600,000

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 2019

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

	Notes	1 January - 31 December 2019	1 January - 31 December 2018
NET PROFIT FOR THE YEAR		682,172	334,000
Other Comprehensive Income:			
<i>Items that will not be reclassified subsequently to profit or loss</i>		<i>(51,824)</i>	<i>(5,221)</i>
Gains / (losses) on revaluation of property, plant and equipment	21	(56,886)	1,213
Remeasurement of defined benefit plans	19	(161)	453
Changes in currency translation difference	21	633	(1,068)
Income tax relating items that will not be reclassified subsequently to profit or loss	30	4,590	(5,819)
Income tax relating to gains / (losses)			
on revaluation of property, plant and equipment	21,30	4,558	(5,728)
Income tax relating to remeasurement of defined benefit plans	30	32	(91)
<i>Items that may be reclassified subsequently to profit or loss</i>		<i>110,138</i>	<i>(222,048)</i>
Changes in currency translation difference		109,595	(220,124)
Gains (Losses) on financial assets measured at fair value through other comprehensive income		543	(1,924)
OTHER COMPREHENSIVE INCOME / (LOSS)		58,314	(227,269)
TOTAL COMPREHENSIVE INCOME		740,486	106,731
Attributable to:			
Non-controlling interests		(2,097)	2,580
Equity holders of the parent		742,583	104,151
		740,486	106,731

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 2019

(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 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	21	-	(29,859)	-	-	-	-	(29,859)	-	(29,859)
Transfer of depreciation difference								-		-
(net of deferred tax) of revaluation effect		-	-	(1,337)	-	-	1,337	-	-	-
Share capital increase	21	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
Balance at 1 January 2019		2,639,338	(55,725)	169,342	(1,311,178)	(1,644)	4,662,657	6,102,790	78,428	6,181,218
Total other comprehensive income		-	-	(51,695)	108,160	540	(129)	56,876	1,438	58,314
Profit for the year		-	-	-	-	-	685,707	685,707	(3,535)	682,172
Total comprehensive income		-	-	(51,695)	108,160	540	685,578	742,583	(2,097)	740,486
Purchase of treasury shares	21	-	(24,279)	-	-	-	-	(24,279)	-	(24,279)
Transfer of depreciation difference								-		-
(net of deferred tax) of revaluation effect		-	-	(1,371)	-	-	1,371	-	-	-
Share capital increase		-	-	-	-	-	-	-	-	-
Dividends paid		-	-	-	-	-	(253,575)	(253,575)	(6,764)	(260,339)
Balance at 31 December 2019		2,639,338	(80,004)	116,276	(1,203,018)	(1,104)	5,096,031	6,567,519	69,567	6,637,086

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 2019

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

		1 January - 31 December 2019	1 January - 31 December 2018
	Notes		
Cash flows from operating activities			
Profit for the year		682,172	334,000
Adjustments to reconcile net income to net cash used in operating activities:			
- Adjustments related to depreciation and amortisation	5,14,15	111,246	95,114
- Adjustments related to provision for employment		2,178	1,533
- Adjustments related to allowance for doubtful receivables		3,519	1,694
- Adjustments related to provision for litigations		5,621	5,107
- Adjustments related to deferred income from electricity sale		(16,650)	(136,494)
- Income / (loss) from fair value of forward transactions	27.28	1,125	(8,519)
- Adjustments related to interest expense	28	4,552	6,043
- Adjustments related to interest income	26.27	(127,768)	(126,848)
- Adjustments related to dividend income	26	(16,057)	(11,717)
- Adjustments related to provision for inventory impairment, net		5,462	(1,593)
- Adjustments related to gain on sale or disposal of property, plant and equipment, net	26	(5,975)	(1,257)
- Adjustments related to fair value increase in investment properties	26	(9,351)	(18,734)
- Adjustments related to valuation of investment securities		(310,269)	314,763
- Interest accrual		60	316
- Tax expense	30	111,188	128,860
		<u>441,053</u>	<u>582,268</u>
Movements in working capital			
Change in trade and other receivables		271,832	(199,470)
Change cost and estimated earnings in excess of billings on uncompleted contracts		(23,990)	(33,034)
Change in inventory		29,508	(81,715)
Change in other current assets and other non current assets		(4,241)	59,035
Change in trade and other payables		(168,029)	131,833
Change in billings in excess of cost and estimated earnings on uncompleted contracts		32,137	(100,420)
Change provision for liabilities and other liabilities		247,606	26,248
		<u>384,823</u>	<u>(197,523)</u>
Income taxes paid	30	(112,788)	(106,754)
Employee termination benefits paid	19	(829)	(2,067)
Net cash generated from operating activities		<u>712,259</u>	<u>275,924</u>
Cash flows from investing activities			
Cash receipts from sales of equity or debt instruments of other entities		(7,379)	(242,394)
Proceeds on sale of property, plant and equipment		51,515	22,729
Purchases of property, plant and equipment, intangible assets and investment properties	5,13,14,15	(151,211)	(137,294)
Interest received		118,488	115,642
Dividend received	26	16,057	11,717
Net cash used in investing activities		<u>27,470</u>	<u>(229,600)</u>
Cash flows from financing activities			
Addition to short-term borrowings	8	8,989	(18,264)
Addition to long-term borrowings	8	10,360	25,000
Repayments of borrowings	8	(66,864)	(15,214)
Purchase of treasury shares		(24,278)	(29,859)
Interest paid		(5,656)	(5,982)
Interest received		9,220	10,891
Dividend paid to non-controlling interests		(6,764)	(472)
Dividend paid		(253,575)	(178,995)
Net cash from (used in) financing activities		<u>(328,568)</u>	<u>(212,895)</u>
Translation reserve		(20,825)	11,565
Net increase / (decrease) in cash and cash equivalents		<u>390,336</u>	<u>(155,006)</u>
Cash and cash equivalents at beginning of the year	6	625,712	780,718
Cash and cash equivalents at end of the year	6	<u>1,016,048</u>	<u>625,712</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 2019

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousand 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 2019, 11.83% of the shares of Enka İnşaat is traded publicly in İstanbul Stock Exchange (ISE).

As of 31 December 2019, the average numbers of white and blue-collar personnel are respectively 4.534 and 13.438 (31 December 2018 – 4.558 and 12.043).

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, Serbia and Kosovo.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

As of 31 December 2019, 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 2019

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousand 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 2019, 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)
Bechtel-Enka Joint Venture (Serbia)
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 are presented in U.S. Dollars (“USD”) and all values are rounded to the nearest thousand (’000) except when otherwise indicated.

Enka İnşaat and its subsidiaries which are incorporated in Turkey, maintain their books of accounts in accordance with the Turkish Commercial Code and Tax Law and 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 Company prepares its statutory consolidated financial statements in Turkish Lira (“TL”) in accordance with Turkish Financial Reporting Standards (“TFRS”) 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 consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

There are no differences between the consolidated financial statements prepared in accordance with TFRS 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”.

The consolidated financial statements have been prepared on the historical cost convention, except for financial assets at fair value through profit or loss, investment properties, land and buildings which are measured at fair values.

Approval of the financial statements:

The consolidated financial statements are approved by the Company’s Board of Directors on 4 March 2020. The General Assembly of the Company has the right to amend and relevant regulatory bodies have the right to request the amendment 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 2019

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousand 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 operations of Enka İnşaat 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 the Power companies’ operating in Turkey, was changed from U.S. Dollar to TL due to the changes in operations or activity in the economic environment as of 31 December 2019.

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, joint operations and branches 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.

The year-end and average rates for 2019 and 2018 for one U.S. Dollar can be summarized as below:

	2019	2018
U.S. Dollars/TL – as of balance sheet date	5.9402	5.2609
U.S. Dollars/TL – yearly average	5.6712	4.8301
U.S. Dollars/RUB – as of balance sheet date	61.9057	69.4706
U.S. Dollars/RUB – yearly average	64.7361	62.7078

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, Turkish Accounting Standards 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 2019 and 2018 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 2019

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousand 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 2019

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousand 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 2019 and 2018 are as follows:

Company name	Segment	Functional Currency	Direct / Indirect ownership	
			31 December 2019	31 December 2018
İzmir Elektrik	Energy	TL	100.00%	100.00%
Adapazarı Elektrik	Energy	TL	100.00%	100.00%
Gebze Elektrik	Energy	TL	100.00%	100.00%
Enka TC LLC	Trade	RUB	100.00%	100.00%
Mosenka	Rental	RUB	100.00%	100.00%
MKH	Rental	RUB	100.00%	100.00%
OMKH	Rental	RUB	100.00%	100.00%
Enka Santral Hizmetleri A.Ş.	Energy	TL	100.00%	100.00%
Enka Enerji Ticaret A.Ş.	Energy	TL	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	USD	100.00%	100.00%
Enka Construction & Development B.V.	Construction	EUR	100.00%	100.00%
Far East Development B.V.	Construction	USD	100.00%	100.00%
Enka Geothermal B.V. (formerly 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	USD	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	RUB	100.00%	100.00%
Enmar Construction B.V.	Trade	EUR	100.00%	100.00%
Cmos B.V.	Trade	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	USD	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	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 2019

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousand 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 2019	31 December 2018
Enet	Construction	TL	100.00%	100.00%
Üstyurt Kurylys	Construction	USD	100.00%	100.00%
Enka Systems Yazılım A.Ş.	Trade	USD	100.00%	75.00%
Enka Pazarlama	Trade	EUR	99.99%	99.99%
Enka Trading B.V.	Trade	EUR	99.99%	99.99%
Metra Akdeniz Dış Ticaret A.Ş.	Trade	EUR	99.99%	99.99%
Encommerce B.V.	Trade	EUR	99.99%	-
Entaş	Trade	TL	99.98%	99.98%
Kasktaş	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 Renewables LLC	Energy	USD	90.00%	-
Enka Teknik	Construction	USD	80.00%	80.00%
Çimtaş Boru İmalatları ve Ticaret Ltd. Şti.	Construction	EUR	50.00%	50.00%

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 2019 and 2018 is as follows:

	Functional Currency	31 December 2019	31 December 2018
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%
Bechtel-Enka Joint Venture (Serbia)	USD	50.00%	-

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts are expressed as thousands of U.S. Dollars ("USD") unless otherwise stated. Currencies other than USD are expressed in thousand 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 following the accounting policies applied in the consolidated financial statements as at and 31 December 2019 are the same as those applied in the last annual financial statements as at and for the year ended 31 December 2018.

IFRS 16 Leases

The Group initially applied IFRS 16 Leases from 1 January 2019. The group, as a lessee, use the underlying asset the right representing the right to use and the lease representing the lease payments that is obliged to pay took their debts into their financial statements. Accounting for the lessor, which is similar the previous accounting policies.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

The details of the changes in accounting policies are disclosed below.

A. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease. In case of transfer of a right to control the use of an asset defined a contract in accordance with TFRS 16 for a specified period of time, this contract is a rental contract or includes a rental transaction.

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

B. As a lessee

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

i. Leases classified as operating leases under IAS 17

Previously, the Group classified property leases as operating leases under IAS 17.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019.

Right-of-use assets are measured at either:

- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Group applied this approach to all other leases.

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

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

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

2.2 Changes in the accounting policies (cont'd)

B. As a lessee (cont'd)

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

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and used hindsight when determining the lease term.
- if the contract includes extension or termination options, new evaluations of the management have been used by determining lease term.

ii. Leases classified as finance leases under IAS 17

Leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

C. As a lessor

The Group leases out its investment property, including own property and right-of-use assets. The Group has classified these leases as operating leases. The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease.

D. Impact on financial statements

On transition to IFRS 16, the Group recognised right-of-use assets and lease liabilities, respectively as "Intangible assets" and "Borrowings".

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted- average rate applied is 5.1% for USD.

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.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

2.4 Standards and interpretations issued but not yet effective

Standards issued but not yet effective and not early adopted

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

The revised Conceptual Framework (Version 2018)

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.

Amendments to IAS 1 and IAS 8 - Definition of Material

In October 2018, 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. The amended “definition of material” was added to the important definition and it was stated that this expression could lead to similar results by not giving and giving misstating information. In addition, with this amendment, the terminology used in its definition of material has been aligned with the terminology used in the Conceptual Framework for Financial Reporting (Version 2018). Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 1 and IAS 8.

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. IASB has issued amendments to IFRS 3 Business Combinations to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. With this amendments confirmed that a business must include inputs and a process, and clarified that the process shall be substantive and the inputs and process must together significantly contribute to creating outputs. It narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a concentration test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. This is a simplified assessment that results in an asset acquisition of 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; with earlier application permitted. The Group does not expect that application of these amendments to IFRS 3 will have significant impact on its consolidated financial statements.

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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)

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

Interest Rate Benchmark Reform, which amended IFRS 9, IAS 39 and IFRS 7 issued in September 2019, added Section 6.8 and amended paragraph 7.2.26. About this issue, IASB identified two groups of accounting issues that could affect financial reporting. These are:

- pre-replacement issues - issues affecting financial reporting in the period before the reform; and
- replacement issues - issues that might affect financial reporting when an existing interest rate benchmark is either reformed or replaced.

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

- a) The highly probable requirement,
- b) Prospective assessments,
- c) IAS 39 retrospective assessment and
- d) Separately identifiable risk components.

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

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.

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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)

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. ESA contracts expired in 2019.

Commercial activities

Earnings from sales as a result of commercial activities; All significant risks related to the Group, and the transfer of gains to the buyer on an administrative involvement associated with the property and on the goods sold lack of effective control, reliable measurement of income, economic benefits associated with the transaction the flow to the business is likely and the costs arising from or will be reliably measurement conditions are recorded as income. Net sales are estimated from the sales amount of the goods and realized It is shown by deducting returns, discounts, commissions, turnover premiums and sales-related taxes.

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 is recognized in the consolidated statement of profit or loss on an accrual basis taking into account the effective yield on the asset.

Dividends

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

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

2.5 Summary of significant accounting policies (cont'd)

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.

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	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.

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

2.5 Summary of significant accounting policies (cont’d)

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.

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.

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.

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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

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.

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)

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.

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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 for 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 has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

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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 (cont’d)

Policy applicable from 1 January 2019 (cont’d)

i. As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group’s estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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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 (cont’d)

Policy applicable from 1 January 2019 (cont’d)

ii. As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of ‘other revenue’.

Policy applicable before 1 January 2019

i. As a 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.

ii. As a 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.

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

2.5 Summary of significant accounting policies (cont’d)

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.

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.

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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 (cont'd)

Deferred income tax is provided, 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.

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.

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

2.5 Summary of significant accounting policies (cont’d)

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.

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 IFRS 15 “Revenue from Contracts with Customer” (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 30).
- e) The Group management has made significant assumptions for determining the economic lives and impairment of tangible and intangible assets with the guidance of experienced technical staff. Recoverable amounts are determined within the scope of IAS 36 for identification of impairment (Note 14 and 15).
- f) 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 2019; regarding to the distribution of the year 2018 profit, it has been resolved to distribute dividend to its shareholders net in total TL 950,000 (2018 - TL 901,000); further it has been resolved to distribute TL 34,184 (2018 - TL 32,348) as cash dividend to founder shares. Total TL 200,000 from TL 950,000 has been distributed as an advance dividend on 12 December 2018, and the remaning amount total TL 750,000 is distributed on 17 April 2019 at a rate of 15% gross and 13,67% net per share.

In 2019 and 2018, the Group distributed dividends as detailed below:

	2019		2018	
	Dividend (TL Thousands)	Dividends per share	Dividend (TL Thousands)	Dividends per share
Ordinary share owners (1 Full TL nominal value) (*)	741,000	0.14 Full TL	549,240	0.12 Full TL
Founder share owners	34,184	34,18 TL	32,348	32.34 TL
Ordinary share owners (1 Full TL nominal value) (*) (**)	690,130		198,000	
	<u>1,465,314 TL</u>		<u>779,588 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 İnşaat by the General Assembly in its ordinary Meeting held on 28 March 2019; regarding to the distribution of the period between 1 January – 30 September 2019 profit, it is resolved to distribute, as of the date of 13 November 2019 a total TL 700,000 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 14.00% gross and 11.90% 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 2019	31 December 2018
ASSETS		
Current Assets		
Cash and cash equivalents	219,661	98,209
Trade receivables	42,963	102,603
Other receivables	522	294
Inventories	1,609	3,999
Costs and estimated earnings in excess of billings on uncompleted contracts	5,578	6,754
Other current assets	10,043	11,984
Group's share in current assets of joint operations	280,376	223,843
Non-Current Assets		
Property, plant and equipment	76,570	67,826
Accumulated depreciation	(44,477)	(41,085)
Group's share in joint operations in property, plant and equipment	32,093	26,741
LIABILITIES		
Current Liabilities		
Trade payables	23,105	29,724
Billings in excess of costs and estimated earnings on uncompleted contracts	165,244	138,965
Provisions	11,107	5,803
Provisions for employee benefits	3,678	5,943
Other current liabilities	86,091	3,744
Group's share in current liabilities of joint operations	289,225	184,179

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 2019	1 January - 31 December 2018
Revenue	371,192	490,613
Cost of revenue	(299,605)	(362,195)
Other operating expenses	(19)	(42)
Financial income	2,097	323
Financial expenses	(380)	(4,512)
Taxation charge	(6,321)	(2,857)
Net profit	66,964	121,330

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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 2019					
	Construction contracts	Rental	Trade	Energy	Eliminations	Consolidated
Revenues	1,121,233	345,777	107,546	318,020	-	1,892,576
Inter-segment revenues	26,184	541	10,962	6,236	(43,923)	-
Cost of revenues (-)	(921,163)	(114,330)	(86,825)	(334,191)	-	(1,456,509)
Inter-segment cost of revenues (-)	(26,184)	-	(10,962)	(6,236)	43,382	-
Gross profit	200,070	231,988	20,721	(16,171)	(541)	436,067
Administrative expenses (-)	(75,767)	(17,788)	(7,709)	(7,444)	626	(108,082)
Marketing, selling and distribution expenses (-)	(12,658)	(5,552)	(5,618)	-	-	(23,828)
Other operating income	13,319	2,342	782	39,913	-	56,356
Other operating expenses (-)	(31,519)	(1,607)	(718)	(1,528)	-	(35,372)
Profit from operations	93,445	209,383	7,458	14,770	85	325,141
Investment income	484,780	107,924	-	-	-	592,704
Investment expenses (-)	(62,446)	(64,466)	-	(4,496)	-	(131,408)
Profit from operations Before financial income/(expenses)	515,779	252,841	7,458	10,274	85	786,437
Financial income	17,161	4,710	974	12,813	(560)	35,098
Financial expenses (-)	(16,888)	(5,451)	(2,681)	(3,801)	646	(28,175)
Profit before tax	516,052	252,100	5,751	19,286	171	793,360
Current tax expense (-)	(31,902)	(37,277)	(3,420)	(17,369)	-	(89,968)
Deferred tax expense (-)	(15,357)	(13,809)	1,116	6,830	-	(21,220)
Profit for the year from continuing operations	468,793	201,014	3,447	8,747	171	682,172

	31 December 2019				
	Construction contracts	Rental	Trade	Energy	Consolidated
Segment assets	4,840,127	2,158,995	199,471	1,119,306	8,317,899
Total assets	4,840,127	2,158,995	199,471	1,119,306	8,317,899
Segment liabilities	936,573	405,857	77,549	260,834	1,680,813
Total liabilities	936,573	405,857	77,549	260,834	1,680,813

	1 January - 31 December 2019				
	Construction contracts	Rental	Trade	Energy	Consolidated
Other segment information					
<u>Capital expenditures</u>					
Property, plant and equipment & investment property	65,312	34,882	20,768	16,095	137,057
Intangible assets	9,366	134	1	4,653	14,154
Total capital expenditures	74,678	35,016	20,769	20,748	151,211
Depreciation expenses	46,478	3,591	2,036	52,993	105,098
Amortization expenses	5,907	131	23	87	6,148

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5. SEGMENTAL INFORMATION (cont'd)

a) Business segments (cont'd)

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)

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 2019, revenue amounting to USD 318,020 (31 December 2018 - USD 1,456,518) 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 2019, cost of sales of the above mentioned revenues from TETAŞ, amounting to USD 242,099 (31 December 2018 - USD 1,065,214) 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%.

In 2019, the revenue generated by the Group from energy activities decreased compared to 2018. The Group has temporarily suspended its activities in this business segment due to the ESA contract expired in 2019.

b) Geographical segments

1 January - 31 December 2019						
	Turkey	Russian Federation, Kazakhstan, Georgia	Iraq	Other	Eliminations	Consolidated
Net sales	758,547	620,529	271,881	241,619	-	1,892,576
Inter-segment sales	43,382	541	-	-	(43,923)	-
Capital expenditures	67,611	77,707	4,199	1,694	-	151,211

31 December 2019						
	Turkey	Russian Federation, Kazakhstan, Georgia	Iraq	Other	Eliminations	Consolidated
Segmental assets	5,036,067	2,815,141	121,960	344,731	-	8,317,899

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

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6. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash on hand	2,516	1,910
Cash in bank		
Demand deposits	613,185	337,634
Time deposits	399,110	284,984
Other	2,237	2,184
	<u>1,017,048</u>	<u>626,712</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>1,016,048</u>	<u>625,712</u>

Informations about the nature and level of risks related to cash and cash equivalents are provided in Note 33.

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 2019 and 2018 are detailed below:

	31 December 2019	31 December 2018
Financial assets at fair value through profit or loss		
Private sector bonds		
- International markets	22,390	76,784
Foreign Government bonds		
- International markets	482,078	352,639
Equity securities		
- International markets	612,518	428,954
Mutual funds		
- International markets	48,625	41,140
	<u>1,165,611</u>	<u>899,517</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 2019 and 2018 are detailed below:

	31 December 2019	31 December 2018
Financial assets at fair value through profit or loss		
Private sector bonds		
- International markets	1,535,146	1,417,956
Foreign Government bonds		
- International markets	212,993	294,480
Turkish Government bonds		
- International markets	28,823	12,927
Equity securities	56	101
	<u>1,777,018</u>	<u>1,725,464</u>

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

	31 December 2019	31 December 2018
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 2019				
Short-term borrowings:	Weighted Average	Currency	Original	USD
	Interest Rate	Type	Currency	Equivalent
Short-term bank borrowings	2,05%	EUR	22,481	25,170
	5,14%	USD	8,038	8,038
Total short-term borrowings				<u>33,208</u>
Long-term borrowings:				
Other long-term bank borrowings (*)	5,14%	USD	17,009	17,009
	2,05%	EUR	6,977	7,811
	2,68%	JPY	4,442,577	40,603
Finance lease obligations				109,892
				<u>175,315</u>
Less: Current portion of long-term borrowings				(19,123)
Total long-term borrowings				<u>156,192</u>

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

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.

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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 2019	31 December 2018
Less than 1 year	15,609	15,456
1 - 2 years	30,503	39,049
2 - 3 years	16,237	29,958
3 - 4 years	3,074	15,806
4 - 5 years	-	2,924
More than 5 years	-	-
Less : Current portion of long-term borrowings	15,609	(15,457)
	<u>81,032</u>	<u>87,736</u>

The reconciliation of the cash flows arising from the financing activities of the year ended 31 December 2019 and the movements in liabilities is as follows:

	31 December 2018	Cash flows	Non-cash		31 December 2019
			Exchange rate change	Other non- cash movements	
Short term bank loans	54,540	(42,490)	(1,218)	22,376	33,208
Long term bank loans	103,193	(15,387)	68	(22,451)	65,423
Lease obligations (ST)	3,458	(3,513)	-	3,570	3,515
Lease obligations (LT)	90,618	13,875	9,154	(7,270)	106,377
Total liabilities arising from financing activities	<u>251,809</u>	<u>(47,515)</u>	<u>8,004</u>	<u>(3,775)</u>	<u>208,523</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		31 December 2018
			Exchange rate change	Other non- cash movements	
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>

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

31 December 2019				
	Weighted Average Interest Rate	Currency Type	Original Currency	USD Equivalent
Current portion of long-term finance lease obligations	5.00%	USD	124	124
	3.00%	RUB	209,898	3,391
				<u>3,515</u>
Long-term	5.00%	USD	10,173	10,173
	3.00%	RUB	5,955,537	96,204
				<u>106,377</u>
				<u>109,892</u>

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>

c) Finance lease commitments

As of 31 December 2019 and 2018, repayment schedule of finance lease obligations are as follows:

	31 December 2019	31 December 2018
Less than 1 year	3,514	3,458
1 - 5 years	20,543	18,063
More than 5 years	85,835	72,555
Total finance lease obligations	<u>109,892</u>	<u>94,076</u>

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

	31 December 2019	31 December 2018
<u>Short-term trade receivables</u>		
Trade receivables, net	169,487	337,490
Contract receivables	99,694	174,825
Notes and cheques receivables, net	2,362	1,632
Retention receivables (*)	4,831	7,892
	<u>276,374</u>	<u>521,839</u>
Less: Expected credit loss	(18,872)	(15,901)
	<u>257,502</u>	<u>505,938</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 2019 and 2018, movement of expected credit loss receivables is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Balance at beginning of the year	15,901	22,660
Additional provision (Note 25)	17,435	1,694
Foreign currency translation effect	(206)	1,073
Amounts recovered during the year (Note 25)	(50)	(122)
Write-offs (*)	(14,208)	(9,404)
Closing balance	<u>18,872</u>	<u>15,901</u>

(*) Allowances of the previous periods which were decided as uncollectibles were written-off as of 31 December 2019 and 2018.

	31 December 2019	31 December 2018
<u>Long-term trade receivables</u>		
Trade receivables, net	17,404	44,103
	<u>17,404</u>	<u>44,103</u>

Explanations about the nature and level of risks related to trade receivables are provided in Note 33.

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

	31 December 2019	31 December 2018
<u>Short-term trade payables</u>		
Trade payables	173,685	342,686
Notes payable	132	246
Other trade payables	2,554	1,468
	<u>176,371</u>	<u>344,400</u>

Explanations about the nature and level of risks related to trade payables are provided in Note 33.

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

	31 December 2019	31 December 2018
<u>Short-term other receivables</u>		
Deposits and guarantees given	965	1,033
Other receivables from related parties (Note 32)	9	20
	<u>974</u>	<u>1,053</u>

b) Other payables

	31 December 2019	31 December 2018
<u>Short-term other payables</u>		
Deposits and guarantees taken	18,655	20,776
Other payables to related parties (Note 32)	26	29
	<u>18,681</u>	<u>20,805</u>

	31 December 2019	31 December 2018
<u>Long-term other payables</u>		
Deposits and guarantees taken	24,164	24,927
Other taxes payable	-	82
	<u>24,164</u>	<u>25,009</u>

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11. INVENTORIES

	31 December 2019	31 December 2018
Raw materials and spare parts	176,451	173,162
Work in progress	41,565	38,730
Trade goods (machinery and others)	30,386	68,174
Finished goods	6,141	2,768
Goods in transit	3,188	4,103
Construction materials	20,512	20,815
Allowance for impairment on inventory (*)	(6,132)	(670)
	<u>272,111</u>	<u>307,082</u>

(*) As of 31 December 2019 and 2018, allowance for impairment on finished goods and trade goods is recognized as an expense in cost of sales.

As of 31 December 2019, there is not any pledge on inventories (31 December 2018 - None).

12. CONSTRUCTION CONTRACTS

	31 December 2019	31 December 2018
Costs incurred on uncompleted contracts	1,893,248	2,489,083
Recognized profit less recognized losses to date, net	296,037	439,169
	<u>2,189,285</u>	<u>2,928,252</u>
Less: Progress billing	(2,319,438)	(3,050,258)
	<u>(130,153)</u>	<u>(122,006)</u>

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

	31 December 2019	31 December 2018
Costs and estimated earnings in excess of billings on uncompleted contracts (net)	69,193	45,203
Billings in excess of costs and estimated earnings on uncompleted contracts (net)	(199,346)	(167,209)
	<u>(130,153)</u>	<u>(122,006)</u>

As of 31 December 2019, the amount of advances received of subsidiaries and companies shares in joint operations is USD 302,956 (31 December 2018: USD 42,809).

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13. INVESTMENT PROPERTIES

As of 31 December 2019 and 2018, movement of investment properties is as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Opening balance	1,891,078	2,081,941
Currency translation difference	141,496	(240,186)
Change in fair value, net (Note 26)	40,384	18,734
Additions	10,370	57,283
Change in present value of lease obligations	(3,275)	(26,694)
Disposals	(1,037)	-
Closing balance	<u>2,079,016</u>	<u>1,891,078</u>

Investment properties include mainly real estate properties in Russia and Turkey which are leased to tenants. As of 31 December 2019 and 2018 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 7,955 (31 December 2018 - USD 11,021).

"Business Valuation Bureau LLC" 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 2019, the fair values of investments properties of the consolidated subsidiaries MKH, Mosenka and Enka TC have been set respectively as follows: MKH; 8,73 million RUB equivalent to USD 141,029 (31 December 2018 - 12.52 million RUB equivalent to USD 180,221), Mosenka; 4.18 million RUB equivalent to USD 67,563 (31 December 2018 - 4.41 million RUB equivalent to USD 63,480), Enka TC; 60,18 million RUB equivalent to USD 972,200 (31 December 2018 - 58.09 million RUB equivalent to USD 836,188).

The fair values of the investment properties of the Group in Russia, determined at 31 December 2019 as USD 790,675 (31 December 2018 - USD 705,963). 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.

As of 31 December 2019 and 2018 the reports of independent valuers are prepared based on valuation models such as income capitalization, discounted cash flow model and market value model. The fair value of the properties have not been determined based on income capitalization method in case of lack of transactions observable in the market because of the nature of the property and the lack of comparable data. The fair value of the investment properties of the Group are estimated by using income capitalization method, with capitalization and discount rates ranging between 9,00% to 10,00% and 12,17% to 14,94% (31 December 2018 - 11,70% to 14,40% and 11,60% to 14,10%) respectively.

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13. INVESTMENT PROPERTIES (cont'd)

For the years ended 31 December 2019 and 2018 fair value hierarchy table of investment properties is as follows:

	31 December 2019	Fair value as at 31 December 2019		
		1. Level USD	2. Level USD	3. Level USD
Investment properties in Russia	2,071,061	-	-	2,071,061
Investment properties in Turkey	7,955	-	7,955	-
Total	2,079,016	-	7,955	2,071,061

	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	1,891,078	-	11,021	1,880,057

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 2019	239,436	175,232	2,235,157	33,594	57,906	22,144	14,899	15,794	11,912	2,806,074
Currency translation differences	(1,032)	2,352	(3,069)	(347)	622	(35)	-	403	7	(1,099)
Revaluation (**)	(46,681)	(35,717)	-	-	-	-	-	-	-	(82,398)
Additions	1,705	22,367	27,960	7,398	7,249	1,882	20,270	21,280	16,576	126,687
Disposals	-	(3,569)	(28,128)	(753)	(2,359)	(982)	-	(22,883)	(363)	(59,037)
Transfers	11,911	(11,847)	1,763	(165)	30	(36)	-	(12)	(1,644)	-
Transfers to intangible assets	-	-	-	-	-	-	-	-	(18,742)	(18,742)
Closing balance as of 31 December 2019	205,339	148,818	2,233,683	39,727	63,448	22,973	35,169	14,582	7,746	2,771,485
<u>Accumulated depreciation</u>										
Opening balance as of 1 January 2019	(31,529)	(27,937)	(1,082,020)	(19,595)	(47,699)	(19,727)	(11,606)	(11,567)	-	(1,251,680)
Currency translation differences	(8)	46	2,401	224	(73)	20	-	(19)	-	2,591
Revaluation (**)	986	1,632	-	-	-	-	-	-	-	2,618
Charge of the year	(1,020)	(7,092)	(86,070)	(2,704)	(4,279)	(766)	(1,781)	(1,386)	-	(105,098)
Other reclassifications (***)	-	(25)	981	(1,025)	6	30	(3)	36	-	-
Disposals	732	423	13,571	520	1,375	827	-	2,732	-	20,180
Closing balance as of 31 December 2019	(30,839)	(32,953)	(1,151,137)	(22,580)	(50,670)	(19,616)	(13,390)	(10,204)	-	(1,331,389)
Net book value as of 1 January 2019	207,907	147,295	1,153,137	13,999	10,207	2,417	3,293	4,227	11,912	1,554,394
Net book value as of 31 December 2019	174,500	115,865	1,082,546	17,147	12,778	3,357	21,779	4,378	7,746	1,440,096

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

(**) As of 31 December 2019, Group’s investments in Turkey are revalued by “Artı Gayrimenkul A.Ş.” which is a CMB licensed independent valuation firm and hotel building of OMKH is revalued by independent qualified valuer “Business Valuation Bureau LLC”. 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.

(****) The Group recognises its Power Plants at cost after deducting accumulated depreciation and accumulated impairment losses. The Group evaluates whether there is an indication of impairment in the property, plant and equipment in each period. The Group management is assessed the recoverable amount of the Power Plants with the indication of impairment is estimated the replacement cost according to IAS 36.

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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 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 from construction in progress	-	-	-	-	-	-	-	-	(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
Accumulated depreciation										
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)
Disposals	-	4,425	23,393	1,958	1,544	3,100	-	1,835	-	36,255
Other reclassifications	-	200	(1,832)	1,804	(210)	(35)	265	(192)	-	-
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.

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

As of 31 December 2019, total cost of property, plant and equipment obtained via finance lease and the related accumulated depreciation amounts to USD 4,001 (31 December 2018 - USD 4,001) and USD 3,838 (31 December 2018 - USD 3,838).

As of 31 December 2019, there is no security on the property, plant and equipment of the Group (31 December 2018 - None).

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

	31 December 2019	31 December 2018
Cost	284,665	290,406
Accumulated depreciation	(116,282)	(96,581)
Net book value	168,383	193,825

The distribution of depreciation expenses as of 31 December 2019 and 2018 is presented in Note 24.

As of 31 December 2019 and 2018 fair value hierarchy table of fixed asset is as follows:

	31 December 2019	Fair value as at 31 December 2019		
		1. Level USD	2. Level USD	3. Level USD
Lands	174,500	-	174,500	-
Buildings	115,865	-	-	115,865
Total	290,365	-	174,500	115,865

	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	355,202	-	207,907	147,295

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

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15. OTHER INTANGIBLE ASSETS

	1 January - 31 December 2019	1 January - 31 December 2018
<u>Cost</u>		
Opening balance	62,095	50,691
Currency translation difference	(15)	(856)
Additions	14,154	6,456
Transfer from fixed assets	18,742	6,208
Disposals	(6,684)	(404)
Closing balance	88,292	62,095
<u>Accumulated amortization</u>		
Opening balance	(18,033)	(15,732)
Currency translation difference	205	485
Charge of the year	(6,148)	(2,786)
Closing balance	(23,976)	(18,033)
Carrying value	64,316	44,062

As of 31 December 2019, there is not any pledge on intangible assets (31 December 2018 - None).

The distribution of amortization expenses as of 31 December 2019 and 2018 is presented in Note 24.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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16. PREPAID EXPENSES AND DEFERRED INCOME

	31 December 2019	31 December 2018
Short-term Prepaid Expenses		
Advances given	64,351	26,757
Prepaid expenses	3,789	19,133
	<u>68,140</u>	<u>45,890</u>
Long-term Prepaid Expenses		
Advances given	4,852	627
Prepaid expenses	4,922	5,799
	<u>9,774</u>	<u>6,426</u>
Short-term Deferred Income		
Advances taken	298,197	88,063
Deferred income	55,899	51,305
Deferred rent revenue	592	-
	<u>354,688</u>	<u>139,368</u>
Long-term Deferred Income		
Advances taken	796	494
Deferred rent revenue	-	585
	<u>796</u>	<u>1,079</u>

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17. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

	31 December 2019	31 December 2018
Short-term accrued expenses		
Accrual for construction costs	22,371	34,669
Provision for legal claims	12,946	13,180
Accrued expenses	2,898	3,604
Other accrued expenses	991	177
	<u>39,206</u>	<u>51,630</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 2019 and 2018, the fair value of financial instrument is calculated by using forward exchange rates at the balance sheet date.

	31 December 2019			
	Unrealized Loss	1 to 12 months	1 to 2 years	2 to 5 years
Derivative instruments	126	-	-	-
Forward contracts sales agreements	-	66,012	-	-
Forward contracts purchase agreements	-	66,138	-	-

	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	-	-

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18. COMMITMENTS

Operating lease commitments – Group as lessor

The minimum future rental income of the Group under non-cancelable operating leases at 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Within one year	264,029	282,151
After one year but not more than five years	573,249	654,427
More than 5 years	222,423	299,534
	<u>1,059,701</u>	<u>1,236,112</u>

Litigations

As of 31 December 2019, 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 2019, The group has initiated necessary legal procedures regarding its receivables from overseas projects which is amounting to USD 43,140 (31 December 2018 – USD 38,211).

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18. 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 2019 and 2018 is as follows:

Letters of guarantee, guarantee notes given, mortgage and pledges	31 December 2019		31 December 2018	
	Original Currency	USD Equivalent	Original Currency	USD Equivalent
A. Total amount of guarantees provided by the Company on behalf of itself		598,385		578,382
-USD	142,386	142,386	337,120	337,120
-EUR	276,132	309,155	140,435	160,912
-TL	187,676	31,594	132,544	25,194
-Others (*)		115,250		55,156
B. Total amount for guarantees provided on behalf of subsidiaries accounted under full consolidation method		63,236		64,751
-USD	85	85	85	85
-EUR	424	474	-	-
-TL	822	138	826	157
-Others (*)		62,539		64,509
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>661,621</u>		<u>643,133</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 2019 the portion of other guarantess given to shareholders' equity is 0% (31 December 2018 - 0%).

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

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19. PROVISIONS FOR EMPLOYEE BENEFITS

a) Short-term employee benefits

Liabilities with the scope of employee benefits

	31 December 2019	31 December 2018
Payroll payable	22,138	19,751
	<u>22,138</u>	<u>19,751</u>

Short-term provisions related to employee benefits

	31 December 2019	31 December 2018
Bonus accrual	4,729	7,426
Vacation pay liability	7,022	7,354
	<u>11,751</u>	<u>14,780</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 6,380 equivalent to full USD 1,074 (31 December 2018 - full TL 5,435 equivalent to full USD 1,034) 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 2019, 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 3.24% real discount rate, assuming an annual inflation rate of 8% and a discount rate of 11.5% (31 December 2018 – 4.11%).

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 6,730 which is in effect since 1 January 2020 is used in the calculation of Groups' provision for retirement pay liability (1 January 2019 – full TL 6,018).

Movements of the provision for employee termination benefits for the years ended 31 December 2019 and 2018 are as follows:

	1 January - 31 December 2019	1 January - 31 December 2018
Opening balance	13,309	15,520
Service cost	1,325	1,984
Actuarial loss	161	(451)
Retirement benefits paid	(829)	(2,067)
Currency translation difference	(489)	(1,677)
Closing balance	<u>13,477</u>	<u>13,309</u>

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20. OTHER ASSETS AND LIABILITIES

	31 December 2019	31 December 2018
Other current assets		
Deferred VAT	12,215	11,783
VAT receivable	31,196	19,916
Prepaid taxes and funds	4,524	26,771
Other	1,094	8,211
	<u>49,029</u>	<u>66,681</u>
Other non-current assets		
Prepayment for land leases	-	3,400
Other	282	487
	<u>282</u>	<u>3,887</u>
Other current liabilities		
VAT payable	56,442	17,421
Taxes and funds payable	9,480	10,654
Other	962	653
	<u>66,884</u>	<u>28,728</u>

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21. SHARE CAPITAL AND RESERVES

a) Share capital

The shareholders of the Group and their percentage of ownership as of 31 December 2019 and 2018 is as follows:

	31 December 2019		31 December 2018	
	Percentage of ownership	Amount	Percentage of ownership	Amount
Tara Holding A.Ş.	49.72%	1,312,279	49.72%	1,312,279
Vildan Gülçelik	7.99%	210,883	7.99%	210,883
Sevda Gülçelik	6.43%	169,709	6.43%	169,709
Enka Spor Eğitim ve Sosyal Yardım Vakfı	5.87%	154,929	5.87%	154,929
Other	29.99%	791,538	29.99%	791,538
	100%	2,639,338	100%	2,639,338
Purchase of treasury shares (*)		(80,004)		(55,725)
		2,559,334		2,583,613

(*) Group’s buyback transactions have reached 25,400,000 shares (2018 - 30,000,000) in 2019.

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.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

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21. 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 2019 and 2018 is as follows:

	1 January- 31 December 2019	1 January- 31 December 2018
Opening balance	169,342	176,262
Currency translation difference	633	(1,068)
Revaluation of fixed assets	(56,886)	1,213
Deferred tax effect of revaluation of fixed assets	4,558	(5,728)
Transfer of depreciation difference (net of deferred tax) of revaluation effect	(1,371)	(1,337)
Closing balance	116,276	169,342

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.

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

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

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21. 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 2019, legal reserves of Enka İnşaat are amounting to TL 1.000.629 equivalent to USD 168,450 (31 December 2018 – TL 853,222 equivalent to USD 162,182).

The movement of the share capital (in numbers and in historical TL) of the Group during 31 December 2019 and 2018 is as follows:

	31 December 2019		31 December 2018	
	Number	TL	Number	TL
At 1 January,	4,950,000,000	4,950,000	4,581,600,000	4,581,600
Bonus shares issued out of general reserve	-	-	398,400,000	398,400
Treasury shares	(25,400,000)	(25,400)	(30,000,000)	(30,000)
	<u>4,924,600,000</u>	<u>4,924,600</u>	<u>4,950,000,000</u>	<u>4,950,000</u>

d) Remeasurement of defined benefit plans

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

22. REVENUE AND COST OF REVENUE

Revenue	1 January - 31 December 2019	1 January - 31 December 2018
Domestic sales	758,547	1,852,937
Export sales	<u>1,134,029</u>	<u>1,028,506</u>
	<u>1,892,576</u>	<u>2,881,443</u>

Cost of Revenue	1 January - 31 December 2019	1 January - 31 December 2018
Cost of domestic sales	679,514	1,496,959
Cost of export sales	<u>776,995</u>	<u>655,807</u>
	<u>1,456,509</u>	<u>2,152,766</u>

Segmental information of the Group is disclosed in Note 5.

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23. MARKETING, SALES, DISTRIBUTION AND ADMINISTRATIVE EXPENSES

	1 January - 31 December 2019	1 January - 31 December 2018
Administrative expenses	108,082	90,261
Marketing, sales and distribution expenses	23,828	22,926
	<u>131,910</u>	<u>113,187</u>

a) Marketing, sales and distribution expenses

	1 January - 31 December 2019	1 January - 31 December 2018
Employee benefit expenses	17,034	16,390
Advertisement & Commission Expenses	1,672	2,298
Transportation expenses	1,702	1,365
Office expenses	741	641
Business development expenses	67	188
Depreciation and amortization expenses (Note 24)	154	333
Other	2,458	1,711
	<u>23,828</u>	<u>22,926</u>

b) General administrative expenses

	1 January - 31 December 2019	1 January - 31 December 2018
Employee benefit expenses	65,376	49,494
Consulting and legal expenses	5,763	7,754
Depreciation and amortization expenses (Note 24)	6,789	6,164
Insurance expense	4,346	4,472
Transportation expenses	6,863	5,086
Office Expenses	3,424	2,884
Rent expenses	112	1,149
Other	15,409	13,258
	<u>108,082</u>	<u>90,261</u>

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24. EXPENSES BY NATURE

Depreciation and amortization expenses are detailed below:

	1 January - 31 December 2019	1 January - 31 December 2018
<u>Depreciation expenses</u>		
Cost of revenues	98,410	86,248
Selling and administrative expenses	6,688	6,080
	<u>105,098</u>	<u>92,328</u>
<u>Amortization expenses</u>		
Cost of revenues	5,893	2,369
Selling and administrative expenses	255	417
	<u>6,148</u>	<u>2,786</u>
	<u>111,246</u>	<u>95,114</u>

Employee benefit expenses are detailed below:

	1 January - 31 December 2019	1 January - 31 December 2018
Wages and salaries	196,858	192,013
Social security costs	28,734	36,023
Provision for employee termination benefits (Note 19)	1,325	1,984
Other benefits	4,902	7,618
	<u>231,819</u>	<u>237,638</u>

25. OTHER OPERATING INCOME / EXPENSES

	1 January - 31 December 2019	1 January - 31 December 2018
<u>Other operating income</u>		
Foreign exchange gains from trade receivables	2,665	14,631
Machinery and other rent income	2,479	1,214
Repaired spare parts gained as an inventory	4,240	7,124
Compensation income (*)	5,931	44,288
Insurance compensation income (**)	36,378	372
Service income	523	729
Collection of doubtful receivables (Note 9)	50	122
Commission income	-	12
Other	4,090	8,639
	<u>56,356</u>	<u>77,131</u>

(*) As of 31 December 2018, compensation income consists of the income accruals of settlements cases in relation to projects amounting to USD 38,886 and the remaining consists of the settlement income comprised of early annulment of contracts of tenants.

(**) As of 31 December 2019, insurance compensation income consist of the collection from insurance company for the damaged property, plant and equipment amounting to USD 34,680.

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25. OTHER OPERATING INCOME / EXPENSES (cont’d)

	1 January - 31 December 2019	1 January - 31 December 2018
Other operating expense		
Foreign exchange losses from trade receivables	2,337	12,989
Donations	3,171	3,749
Litigation provisions	5,633	5,368
Tax penalties	28	109
Capital increase expense	254	459
Provision for doubtful receivables (Note 9)	17,435	1,694
Other	6,514	6,842
	<u>35,372</u>	<u>31,210</u>

26. INVESTMENT INCOME / EXPENSES

	1 January - 31 December 2019	1 January - 31 December 2018
Income from investing activities		
Interest income from financial investments	118,488	115,642
Increase in value of financial investments	310,269	-
Increase in the fair value of investment properties	107,912	39,242
Foreign exchange income from investing activities	4,865	25,689
Income from sale of securities	28,654	9,536
Dividend income	16,057	11,717
Gains from sales of property, plant and equipment	6,459	1,334
	<u>592,704</u>	<u>203,160</u>

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26. INVESTMENT INCOME / EXPENSES (cont’d)

	1 January - 31 December 2019	1 January - 31 December 2018
Expenses from investing activities		
Decrease in the fair value of investment properties	(67,528)	(20,508)
Decrease in the fair value of property, plant and equipment	(31,033)	-
Losses from valuation of investment securities	-	(314,763)
Foreign exchange losses from investing activities	(11,222)	(45,859)
Goodwill impairment	-	(22,077)
Losses from sale of securities	(17,794)	(709)
Loss from sales of property, plant and equipment	(484)	(77)
Cancellation of investments	(3,347)	-
	<u>(131,408)</u>	<u>(403,993)</u>

27. FINANCIAL INCOME

	1 January - 31 December 2019	1 January - 31 December 2018
Foreign exchange gains	24,912	34,155
Interest income	9,280	11,206
Forward transactions income	906	8,663
Other	-	241
	<u>35,098</u>	<u>54,265</u>

28. FINANCIAL EXPENSES

	1 January - 31 December 2019	1 January - 31 December 2018
Bank commission expenses	4,809	5,313
Foreign exchange losses	15,995	39,989
Forward transactions losses	2,031	144
Interest expenses	4,552	6,043
Commission expenses of letters of guarantee	563	494
Other	225	-
	<u>28,175</u>	<u>51,983</u>

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

As of 31 December 2019, 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 23,345 (31 December 2018 – USD 23,376).

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30. 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 2019 (2018: 22%). 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 2019, provisional tax is payable at the rate of 20% (2018: 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, 2017. 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.

Transfer pricing regulation

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via Transfer Pricing, dated 18 November 2007 sets details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

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30. TAXATION ON INCOME (cont'd)

Deferred Tax:

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

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

Tax legislations in other countries

As of 31 December 2019 and 2018 effective corporation tax rate in other countries are as follows:

	31 December 2019	31 December 2018
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%

	1 January - 31 December 2019	1 January - 31 December 2018
Consolidated statement of profit or loss		
Current corporate tax	(89,968)	(99,692)
Deferred tax expense	(21,220)	(29,168)
	<u>(111,188)</u>	<u>(128,860)</u>

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

	2019	2018
1 January	53,126	60,188
Current year tax expense	89,968	99,692
Taxes paid	(112,788)	(106,754)
31 December	<u>30,306</u>	<u>53,126</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 2019 and 2018 is provided below:

	1 January - 31 December 2019		1 January - 31 December 2018	
Profit before tax	793,360		462,860	
Tax per statutory tax rate	174,539	22%	101,829	22%
Jobsites exempt from income tax	(1,948)	(0,2%)	(25,328)	(% 5.0)
Effect of different functional currencies and others	(61,403)	(7,7%)	52,359	11.3%
Taxation charge	<u>111,188</u>	<u>14.1%</u>	<u>128,860</u>	<u>28.3%</u>

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30. TAXATION ON INCOME (cont'd)

As of 31 December 2019 and 2018, the breakdown of temporary differences which give rise to deferred taxes is as follows:

	31 December 2019	31 December 2018
Remeasurement and revaluation of property, plant and equipment, intangible assets and investment property	(444,710)	(435,618)
GE Inventory in the context of "PSA" (*)	(36,674)	(47,378)
Adjustments on financial instruments and derivatives	(47,443)	(18,430)
Gross deferred income tax liabilities	(528,827)	(501,426)
Adjustment of revenue levelization	-	3,099
Allowance for retirement pay liability	1,958	1,852
Allowance for doubtful receivables	576	952
Others	18,851	16,878
Gross deferred income tax assets	21,385	22,781
Net deferred tax liability	(507,442)	(478,645)

(*) 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).

Deferred tax is reflected in the statement of financial position as:

	31 December 2019	31 December 2018
Deferred tax assets	7,040	5,415
Deferred tax liabilities	(514,482)	(484,060)
Net deferred liabilities	(507,442)	(478,645)

Total amount of temporary differences and deferred tax liabilities which have not been recognized as of 31 December 2019 related with Group's shares in its subsidiaries, branches and associates is USD 2,183,543 (31 December 2018 - USD 2,420,397).

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30. TAXATION ON INCOME (cont’d)

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

	2019	2018
Balance at 1 January	478,645	464,421
Deferred income tax expense recognized in consolidated statement of profit or loss	21,220	29,168
Deferred income tax expense recognized in equity	(4,590)	5,819
Currency translation difference	12,167	(20,763)
31 December	507,442	478,645

As of 31 December 2019 and 2018, the breakdown of deferred taxes which are recognised in other comprehensive income is as follows:

	31 December 2019			31 December 2018		
	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	(56,886)	4,558	(52,328)	1,213	(5,728)	(4,515)
Revaluation loss of defined benefit plans	(161)	32	(129)	453	(91)	362
Changes in fair value of derivative assets	543	-	543	(1,924)	-	(1,924)
Changes in currency translation differences	110,228	-	110,228	(221,192)	-	(221,192)
	53,724	4,590	58,314	(221,450)	(5,819)	(227,269)

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31. 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 2019.

	31 December 2019	31 December 2018
Earning per share		
- ordinary share certificate (full USD)	0.14	0.07
- founder shares (*)	-	-
Weighted average number of share certificates (nominal value of 1 TL each)	4,924,600,000	4,950,000,000
- ordinary share certificate	4,950,000,000	4,980,000,000
- treasury shares	(25,400,000)	(30,000,000)
- founder shares		

(*) Since 2019 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.

32. RELATED PARTY BALANCES AND TRANSACTIONS

Related parties

The Group is controlled by Tara Holding (49.72%) (31 December 2018 – 49.72%) and Tara and Gülçelik families (28.18%) (31 December 2018 – 28.14%). 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 2019		31 December 2018	
	Receivables	Payables	Receivables	Payables
Shareholders	-	26	-	29
Enka Spor Kulübü	9	-	20	-
	<u>9</u>	<u>26</u>	<u>20</u>	<u>29</u>

As of 31 December 2019, the Group gained USD 8.46 rent income from related parties (31 December 2018 - USD 6.62). As of 31 December 2019 the Group does not have any sales to related parties (2018 - None).

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32. 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 4,433 (31 December 2018 - USD 3,318), the social security payments and retirement pay provisions are USD 494 (31 December 2018 – USD 400) and USD 196 (31 December 2018– USD 374) respectively. Total wages paid for the general manager, general coordinators and vice general managers of the Group (except BOD members), is amounting to USD 11,955 (31 December 2018 – USD 13,221), the social security payment and retirement pay provisions are USD 1,000 (31 December 2018 – USD 1,087) and USD 1,544 (31 December 2018 – USD 2,532) respectively.

33. 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 21.

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 2019 and 2018.

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 2019	31 December 2018
Cash, cash equivalents and financial assets	3,959,677	3,251,693
Less: Total Financial Liabilities	208,523	251,809
Net Assets	3,751,154	2,999,884
Equity	6,637,086	6,181,218
Equity - Net Assets	2,885,932	3,181,334
Total Net Assets to Equity Ratio	56.52%	48.53%

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33. 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, Euro and JPY. 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 2019 and 2018:

	<u>31 December 2019</u>	<u>31 December 2018</u>
A. Assets denominated in foreign currency	782,493	746,603
B. Liabilities denominated in foreign currency	(444,683)	(400,836)
Net foreign currency position (A+B)	<u>337,810</u>	<u>345,767</u>

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33. 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 2019 and 2018 is as follows (non monetary items are not included in the table as they don't have foreign currency risk):

31 December 2019							
	TL	USD Equivalent	Euro	USD Equivalent	Other USD (*)	USD (**)	Total USD Equivalent
Cash and cash equivalents	59,579	10,030	75,678	84,729	105,060	13,407	213,226
Financial investments	346,221	58,284	132,619	148,480	69,276	-	276,040
Trade and other receivables	56,272	9,473	74,481	83,389	33,265	3,626	129,753
Other current assets	90,405	15,219	21,000	23,512	29,589	40,151	108,471
Current assets	552,477	93,006	303,778	340,110	237,190	57,184	727,490
Financial investments	-	-	12,075	13,519	27,906	-	41,425
Trade and other receivables	-	-	5,382	6,025	-	-	6,025
Other non-current assets	9,206	1,550	80	89	5,914	-	7,553
Non-current assets	9,206	1,550	17,537	19,633	33,820	-	55,003
Total assets	561,683	94,556	321,315	359,743	271,010	57,184	782,493
Short-term borrowings	47,749	8,038	22,481	25,169	16,148	-	49,355
Trade and other payables	51,924	8,741	69,759	78,102	130,965	6,403	224,211
Other current liabilities and accrued expenses	269,279	45,332	12,394	13,876	34,589	22,477	116,274
Current liabilities	368,952	62,111	104,634	117,147	181,702	28,880	389,840
Trade and other payables	-	-	-	-	-	-	-
Long-term borrowings	-	-	6,977	7,811	43,684	-	51,495
Other non-current liabilities	-	-	63	70	-	3,278	3,348
Non-current liabilities	-	-	7,040	7,881	43,684	3,278	54,843
Total liabilities	368,952	62,111	111,674	125,028	225,386	32,158	444,683
Net foreign currency position	192,731	32,445	209,641	234,715	45,624	25,026	337,810
Net notional amount of derivatives	-	-	35,000	39,186	-	-	39,186

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

Financial risk factors (cont'd)

Foreign currency risk (cont'd)

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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33. 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 17 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 2019 and 2018:

	31 December 2019		31 December 2018	
	Profit / (loss)		Profit / (loss)	
	Valuation of foreign currency	Devaluation of foreign currency	Valuation of foreign currency	Devaluation of foreign currency
<i>In the case of TL gaining 10% value against US Dollar</i>				
1- TL net asset / (liability)	3,245	(3,245)	1,954	(1,954)
2- Portion hedged against TL risk (-)	-	-	(1,178)	1,178
3- TL net effect (1+2)	3,245	(3,245)	776	(776)
<i>In the case of Euro gaining 10% value against US Dollar</i>				
4- Euro net asset / (liability)	23,472	(23,472)	19,909	(19,909)
5- Portion hedged against Euro risk (-)	3,919	(3,919)	4,258	(4,258)
6- Euro net effect (4+5)	27,391	(27,391)	24,167	(24,167)
<i>In the case of other foreign currencies gaining 10% value against US Dollar</i>				
7- Other foreign currency net asset / (liability)	4,562	(4,562)	8,896	(8,896)
8- Portion hedged against other foreign currency risk (-)	-	-	-	-
9- Other foreign currency net effect (7+8)	4,562	(4,562)	8,896	(8,896)
Total (3+6+9)	35,198	(35,198)	33,839	(33,839)

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

Financial risk factors (cont'd)

Credit risk (cont'd)

	<u>Receivables</u>						<u>Financial assets</u>
	<u>Trade receivables</u>		<u>Other receivables</u>				<u>at fair value</u>
	<u>Related</u>	<u>3rd</u>	<u>Related</u>	<u>3rd</u>	<u>Bank</u>	<u>Derivative</u>	<u>through profit or</u>
	<u>party</u>	<u>party</u>	<u>party</u>	<u>party</u>	<u>deposits</u>	<u>instruments</u>	<u>loss (*)</u>
<u>31 December 2019</u>							
The maximum amount of exposure to credit risk at the end of the reporting period (A+B+C+D+E)	-	274,906	9	965	1,014,532	-	2,334,343
- Total receivable that have been secured with collaterals, other credit enhancements etc.	-	76,059	-	-	-	-	-
A. Financial assets that are either past due or impaired	-	202,267	9	965	1,014,532		2,334,343
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.	-	72,639	-	-	-	-	-
- The amount that have been secured with collaterals, other credit enhancements etc.	-	72,639	-	-	-	-	-
D. The amount of financial assets that are impaired	-	-	-	-	-	-	-
- Past due (Gross book value)	-	18,872	-	-	-	-	-
- The amount of impairment (-)	-	(18,872)	-	-	-	-	-
- 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	-	-	-	-	-	-	-

	<u>Receivables</u>				
	<u>Trade receivables</u>	<u>Other receivables</u>	<u>Bank deposits</u>	<u>Derivative instruments</u>	<u>Other</u>
<u>31 December 2019</u>					
Overdue between 1 to 30 days	55,421	-	-	-	-
Overdue between 1 to 3 months	12,738	-	-	-	-
Overdue between 3 to 12 months	4,470	-	-	-	-
Overdue between 1 to 5 years	10	-	-	-	-
Overdue over 5 years	-	-	-	-	-
	<u>72,639</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

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FOR THE YEAR ENDED 31 DECEMBER 2019

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

Credit risk (cont'd)

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

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

33. 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 2019

	<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	52,331	53,432	769	17,353	35,310
Trade payables	176,371	176,371	94,005	45,546	36,820
Other payables to related parties	26	26	26	-	-
Other payables related to employee benefits	22,138	22,138	14,818	1,909	5,411
Other payables	18,655	18,655	10	-	18,645

Non-current liabilities

31 December 2019

	<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	156,192	156,736	67,425	15,601	73,710
Trade payables	-	-	-	-	-
Other payables	24,164	24,164	22,662	1,389	113

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

Financial risk factors (cont'd)

Liquidity risk (cont'd)

Current liabilities

31 December 2018

<u>Contractual maturity analysis</u>	<u>Carrying value</u>	<u>Total cash outflow according to contract (I+II+III)</u>	<u>Up to 1 month (I)</u>	<u>1 to 3 months (II)</u>	<u>3 to 12 months (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 according to contract (I+II+III)</u>	<u>1 -3 years (I)</u>	<u>3 to 5 years (II)</u>	<u>5+ years (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 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.

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

Fair value hierarchy (cont'd)

31 December 2019:

	Level 1	Level 2	Level 3
Private sector bonds	1,557,536	-	-
Equity securities	608,286	4,288	-
Foreign government bonds	695,071	-	-
Turkish government bonds	28,823	-	-
Mutual funds	20,341	28,284	-
Financial assets at fair value through profit or loss	2,910,057	32,572	-
Derivative instruments	-	(126)	-
Financial liabilities at fair value through profit or loss	-	(126)	-

31 December 2018:

	Level 1	Level 2	Level 3
Private sector bonds	1,494,740	-	-
Equity securities	427,968	1,087	-
Foreign government bonds	647,119	-	-
Turkish government bonds	12,927	-	-
Mutual funds	16,341	24,799	-
Financial assets at fair value through profit or loss	2,599,095	25,886	-
Derivative instruments	-	(5,176)	-
Financial liabilities at fair value through profit or loss	-	(5,176)	-

35. EVENTS AFTER THE REPORTING PERIOD

On 23 October 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 20,000,000, to determine the funds to be reserved as Full TL 150,000,000 for this purpose and to authorize Member of the Executive Committee İlhan Gücüyener for the transactions till the second announcement of the Board. For this purpose, the Company acquired up to nominal value of the Full TL 5,400,000 in 2019, after the reporting period nominal value of the Full TL 14,600,000 shares have additionally acquired.

On 25 February 2020, 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 90,000,000 for this purpose and to authorize Member of the Executive Committee İlhan Gücüyener for the transactions. According to this resolution, the total nominal value of Full TL 2,745,000 shares have been acquired.